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ROYAL COMMISSION

ON

TRANSPORTATION

HEARINGS

HELD AT

OTTAWA

VOLUME No.:

94

DATE:

SEP. 26 1960

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ROYAL COMMISSION ON TRANSPORTATION

Proceedings of hearings held
in the Court Room, Board of
Transport Commissioners
Offices, Ottawa, Ontario, on
the 26th day of September, 1960.

COMMISSION

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Ottawa, Ontario,
Monday,
September 26, 1960

---On commencing at 10.30 a.m.

THE CHAIRMAN: Order, please. We had a ruling in Mr. Frawley's portion, but he is not here so we won't present that this morning.

Mr. MacKimmie?

MR. MacKIMMIE: Thank you, Mr. Chairman.

With the Commission's permission I would like to call Mr. W. B. Saunders.

THE CHAIRMAN: We have Volume I. When will Volume II be available?

MR. MacKIMMIE: I understand it will be available in about three weeks' time -- around October 15, we expect, sir. We understand that the straight cost phase is set for mid-November some time, and we hope, sir, to have it filed a month ahead of its presentation.

THE CHAIRMAN: There is nothing on the cost technique in the evidence Mr. Saunders is giving now?

MR. MacKIMMIE: No, Mr. Chairman. You will recall, Mr. Chairman, in May a short précis of evidence, or submission, was filed by Mr. Saunders. This is but an expansion of that general presentation and the only reference to costing at all in this Volume I is with reference to the passenger deficit, where Mr.



1
2 Saunders says certain figures were developed using the
3 same technique. But all other sections of the reports,
4 sir, are ---

5 THE CHAIRMAN: But he does not attack the
6 technique?

7 MR. MacKIMMIE: Not in this submission, sir.
8 No, sir, not in this submission.

9 Mr. Saunders?

10
11 W. B. SAUNDERS, called

12 MR. COOPER: Mr. Chairman, Mr. MacKimmie
13 said around October 15th. I wonder if that date could
14 be made definite so that all counsel will know exactly
15 when we may expect Volume II. I think that would clear
16 the air quite a bit, if we knew exactly when it was
17 going to be filed.

18 MR. MacKIMMIE: I certainly don't want to
19 charge the air any further, sir, than I understand it
20 has been. If I am required to make a firm date, I
21 will make it October 15th. We were still hopeful of
22 getting a little more material in ---

23 THE CHAIRMAN: You can make it October 15th?

24 MR. MacKIMMIE: We will do that, Mr. Chairman.

25
26 DIRECT EXAMINATION BY MR. MacKIMMIE:

27 Q. Your full name, sir, is?

28 A. William B. Saunders.

29 Q. And where do you reside, Mr. Saunders?

30 A. Washington, D.C.



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Q. And what is your profession?

A. I am a transportation consultant.

Q. I wonder if you would give the Commission some of your qualifications; first, your formal education?

A. I was raised in Boston, Mass., and went to Harvard College, where I received my Bachelor's degree in economics.

Q. What year?

A. That was in 1939. Subsequently, I obtained a Master's Degree from American University in Washington, in 1941, and during that interval from 1939 until 1941 I was employed in the United States Department of Commerce as an industrial research analyst and in the early defence agencies of the United States Government in connection with preparation for the emergency and then World War II. I was primarily concerned with transportation problems in connection with a wide range of commodities and with the various forms of transportation. Shall I go on with the background?

Q. Yes, sir.

A. In 1941, the end of 1941, I was assigned to the office of Defence Transportation, which was the agency concerned with the direct handling of transportation, supply and requirements for civilian needs. It was our function then to make studies of transportation efficiency, traffic flow, capacity problems, all with a view to determining how little of



1
2 the critical materials could be assigned to the
3 transportation industry in order to keep it functioning
4 effectively and still not cause too much of a drain
5 on scarce commodities needed for the military effort.

6 In 1944, I was assigned to the transportation
7 corps of the United States Army, and then further
8 assigned from there to the office of strategic services.
9 In that capacity, I was a transportation specialist,
10 and later chief of the industrial resources section
11 of the Far East division. My assignment in that
12 connection was the preparation of intelligence studies
13 for the joint chiefs of staff in connection with
14 transportation capacity, target planning and assess-
15 ment of Japanese economic potential throughout the
16 Far East.

17 At the close of the year, in 1945, I was
18 employed as a research analyst in the Association of
19 American Railroads. That organization had just set
20 up a new research department with a view to making long-
21 range plans and reassessments of the position of the
22 railway industry in the United States. My assignment
23 included two important projects, among other varied
24 projects. The first was a study of railway engineering
25 and mechanical research. The study was directed
26 towards an evaluation of the techniques used by the railway
27 industry in adapting and acquiring new techniques, new
28 technology, new methods of operation, directed essentially
29 towards the question of how the industry could improve
30 the speed with which it put into effect ideas that were



1
2 on the drawing board of suppliers, universities,
3 other industries, and make them adaptable to more
4 efficient transportation.

5 My second major assignment was an analysis
6 of railway operating methods and procedures based on
7 the experience of the railways in World War II as an
8 assessment of the extent to which new ideas had come
9 from the wartime experience, when pressures existed
10 on railway management and labour, to devise more effi-
11 cient methods of handling a substantially increased
12 volume of traffic.

13 In addition to those two major studies, there
14 were a number of smaller studies in which I participated,
15 in connection with traffic forecasting and economic
16 development, highway competition and similar matters.

17 In 1947, I left the Association to open my
18 own office as a transportation consultant.

19 Q. And you still continue to practise your
20 profession, sir?

21 A. Yes, sir.

22 Q. In Washington?

23 A. I have.

24 Q. In the years that you have been in private
25 practice, have you been called upon to make studies on
26 transportation problems and present them to various
27 agencies, and, if so, just a brief sampling of what
28 you have had to do?

29 A. I have been retained by a wide range of
30 clients, covering all forms of transportation in this



1
2 period since 1947. We have made studies of railroad,
3 highway, water and air transportation on behalf of
4 shippers and shipper organizations in all parts of
5 the country, on behalf of railroads, large and small,
6 in all parts of the country; on behalf of motor
7 carriers; individual companies for managerial pur-
8 poses, and groups of companies in connection with
9 rate making problems.

10 Q. Have you appeared before the Interstate
11 Commerce Commission, sir?

12 A. Yes, sir. I have appeared before the
13 Interstate Commerce Commission, various state and local
14 regulatory authorities and various courts in the
15 United States.

16 Q. I understand, Mr. Saunders, that
17 next month you will be attending a congress in
18 Rio de Janeiro with reference to railway transportation,
19 sir; is that right?

20 A. Yes, sir. I am a member of the staff
21 of technical advisers to the United States delegation
22 to the Pan American railway conference.

23 MR. MacKIMMIE: Those are Mr. Saunders'
24 railway qualifications.

25 Q. You have been asked, Mr. Saunders, to
26 prepare a precis of evidence on the problems of
27 Canadian railways by the Alberta Wheat Pool, Manitoba
28 Pool Elevators and Saskatchewan Wheat Pool and the
29 United Grain Growers, and I take it, sir, that this
30 volume with the red cover is Volume I of that study?



1
2 A. Yes, sir.

3
4 THE PROBLEMS OF THE CANADIAN RAILWAYS

5 A General Appraisal

6 Chapter I

7 Purpose of the Report:

8 This statement is offered in connection
9 with a broad investigation of the Canadian Railways.
10 The material submitted will consist of two parts.
11 Volume I, the present study, is concerned with the
12 broad problems and policies of the Canadian railways.
13 More specifically we shall inquire here into the role
14 of the railroads in the Canadian economy, the nature of
15 the revenues, and the key elements which affect the cost
16 of operation. From this analysis we intend to demon-
17 strate the principal problem areas which affect net
18 earnings and the ability of the railroads to provide
19 efficient transportation for the people of Canada.

20 Volume II, to be submitted later, will
21 contain an appraisal of the cost techniques used by
22 the Canadian lines in their submissions to this
23 Commission. While the railroad study has been con-
24 cerned essentially with Crow's Nest grain, the tech-
25 niques involved can be applied to other segments of
26 traffic. The present volume will make considerable
27 use of the techniques adopted by the railways for
28 purposes of illustration. The subsequent volume will
29 deal in some detail with the principles and the assump-
30 tions underlying the railroad cost study. It is not



1
2 to be assumed from our use of the material in this
3 volume that we have no serious objections to some of
4 the data used. Nonetheless, we believe that the
5 figures we have used are significant for the purposes
6 of our report, provided it is understood they are
7 used merely as general guides to the magnitudes
8 involved in various of the problems to be described
9 hereinafter.

10 Most of the statistical data on Canada
11 come from the Dominion Bureau of Statistics and
12 represent standard sources. The U. S. data likewise
13 come from official government reports. Thus, only
14 in exceptional instances are footnotes given to the
15 basic tables.

16 Q. That merely describes the purpose of
17 the report?

18 A. That is correct.
19 Chapter II -- The Role of Transportation in Canada's
20 Economy.

21 In assessing the position of the railways, one
22 must recognize first the role of transportation and
23 the fact that transportation is an integral part of the
24 total national economy. What happens to the economy
25 directly affects the volume and kind of transportation
26 demanded and ultimately the traffic and earnings of the
27 railroads. In this chapter we shall consider first
28 what has happened to transportation in Canada, with
29 some attention to the role of the rails, while in the
30 next chapter we shall describe in more detail the factors



1
2 which have brought the railways to their present
3 situation.

4 Canada's geography may be old but Canada's
5 economy is young, vigorous and upcoming. In a sense,
6 Canada is today merely at the threshold of its
7 industrial development. A look at a map shows the
8 vast open expanses in Canada, with the dots showing
9 cities being concentrated in only a small fraction
10 of the total area. In broad statistics, we see
11 an area of some 2 million square miles, exclusive of
12 territories, with a population of some 17 million.
13 A handful of U. S. cities with only a few hundred
14 square miles of area have as much population as all
15 of Canada.

16 While it is a broad and lightly settled
17 area, Canada is growing rapidly. It is in the
18 trends that Canada shows its vigor and its potential.
19 Because the U. A. is so close, because it is a
20 recognized industrial leader among nations and
21 because its technology is so similar to that of Canada,
22 much of the analysis herein will include comparisons
23 of Canada and the United States.

24 Population per Square Mile:

25 We have mentioned that Canada has some
26 2 million square miles of territory with 17 million
27 people. In contrast, the land area of the United
28 States (excluding Alaska and Hawaii) is nearly
29 3 million square miles and the population is
30 approximately 175 million. Thus, 50 per cent more



land holds 10 times as many people. Table II - 1 shows the trend in population density since 1928.

Table II - 1

Population Density
Canada vs. United States
(excluding territories)

Number of People per Square Mile

	<u>Canada</u>	<u>U.S.</u>
1928	4.7	40.5
1938	5.3	43.6
1958	8.1	58.2

In 1928 Canada had only 4.7 persons per square mile whereas the United States had 40.9 persons per square mile. At that time the population density in the United States was some 8 times as great as in Canada. In 1958, however, Canada's density had increased to 8.1 persons per square mile and that of the U.S. had increased to 58.2. Thus, the spread has been narrowing and the ratio is now 7 to 1. Canada's use of space has been increasing faster than in the United States.



Gross National Product:

What have these widely scattered people been able to produce? In order to make meaningful comparisons, we have analysed gross national product of Canada and United States in terms of constant dollars, all adjusted to a 1954 price level. The effect therefore is to compare roughly the physical volume of output. This is shown in Table II - 2 for the period 1929 to 1959. Not all years are given in the interests of space but important periods are selected to demonstrate the trend. In 1929 Canada produced goods and services worth some 11 billion dollars while the U. S. production was nearly 182 billion dollars, based on 1954 dollar values. Both countries were sharply cut back by the depression, reached a low in 1933, and then climbed through the World War II period. Canada was relatively the more stable of the two during the war and postwar years but began to climb rapidly around 1950. The 1959 volume of 30.5 billion reflects a level of activity nearly 3 times as great as in 1929. At that time, the total output of the U. S. was 16.2 times as great as that of Canada but by 1959, the spread had declined. U. S. activity was only 14 times as great as Canada.

Productivity of the People:

The foregoing deals only with absolutes and does not completely explain the productivity of the population. Table II - 2 shows that in 1929 the average Canadian produced \$1113 worth of goods and



1
2 services. By 1959 his output averaged \$1749, an
3 increase of 57 per cent.

4 The level of output per capita in the U.S.
5 was considerably higher in both years. Further, the
6 increase was nearly 62 per cent in the same period.
7 Thus individual productivity was relatively less for the
8 average Canadian in 1959 than in 1929, as compared with
9 the average citizen of the U. S.

10 Because the figures of gross national product
11 include both goods and services, we have to look more
12 deeply at the trends in order to determine the
13 transportation significance of the changes. Increases
14 in services or in finance do not have the transportation
15 producing potential characteristic of mining, agri-
16 culture or manufacturing.

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Table II - 3

Index of Industrial Production
Canada and United States

1935 - 1958

	(1) Canada <u>1949 = 100</u>	(2) U. S. <u>1957 = 100</u>	(3) U. S. <u>1949 = 100</u>
1935	41.4	31	48
1936	45.7	36	56
1937	52.3	40	62
1938	49.6	31	48
1939	53.3	38	59
1940	63.9	44	69
1941	80.1	56	88
1942	94.7	69	108
1943	100.5	82	128
1944	101.3	81	127
1945	90.1	70	109
1946	83.8	59	92
1947	91.5	65	102
1948	96.4	68	106
1949	100.0	64	100
1950	106.9	74	116
1951	116.6	81	127
1952	120.9	84	131
1953	129.1	91	142
1954	128.5	85	133
1955	142.3	96	150
1956	154.9	99	155
1957	155.4	100	156
1958	152.6	93	145



1
2 Trend of Industrial Production:

3 The growth of Canada's industrial activity
4 can be measured by regularly published indexes. Data
5 on industrial production are shown in Table II - 3
6 for the period 1935-1958. Since 1939, Canada's output
7 has moved from an index of 53 to 153 or roughly a
8 tripling of industrial activity. Meanwhile, the U. S.
9 index has moved from 59 to 145, a level 2.5 times as
10 high as in 1939. The foregoing illustrates the
11 important fact that industrial activity has been
12 climbing more rapidly in Canada than in the U. S.

13 Importance of Facilities:

14 While output has increased, what of the
15 transport capacity available to handle the output?
16 One useful test is the amount of fixed facilities over
17 which goods may move, measured in terms of mileage by
18 rail and highway. Such figures are not entirely com-
19 plete or, indeed, entirely consistent with one another
20 because they do not include waterway mileage and
21 because they do not have exactly the same characteristics
22 in various territories. Thus, a mile of highway may be
23 wide or narrow and in good or bad repair. An expressway
24 can handle much more traffic much more economically
25 than a winding country road which becomes completely
26 tied up when a single truck passes over a hill.
27 Despite these technical limitations, however, the trend
28 here can be most illuminating in explaining how the
29 economy manages to move its output. Table II - 4 compares
30 the right of way facilities of the U. S. and Canada



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during the period 1930 to 1958, relative to the population to be served. Because we are interested in the movement of intercity freight, only hard surfaced highways are included.

It is interesting that overall, the total amount of right of way has changed so little in Canada relative to population. Thus, the country has offered about 5 miles of railway plus highway facility for each 1,000 people during the past 30 years. This is somewhat less than is offered in the U. S.



Table II - 4

Miles of Railroads and Highways per
1,000 Population -- Canada vs.
United States

	Canada			United States		
	Railroad	Highway	Total	Railroad	Highway	Total
1930	4.1	.9	5.0	2.0	1.6	3.6
1940	3.7	1.4	5.1	1.8	3.4	5.2
1945	3.5	1.4	4.9	1.7	3.7	5.4
1950	3.1	1.8	4.9	1.5	3.9	5.4
1955	2.8	2.2	5.0	1.3	4.5	5.8
1956	2.7	2.3	5.0	1.3	4.7	6.0
1957	2.6	2.4	5.0	1.3	4.8	6.1
1958	2.6	2.5	5.1	1.3	4.9	6.2

Relative Dependence of Railways:

Table II - 4 also shows the 'mix' of facilities in the two countries. It is interesting to observe that in 1930 Canada's right of way consisted very largely of railroad tracks. Canada's railroads were a much more important capital facility for the people of Canada than were the railroads of the U. S. As population developed in Canada, the emphasis shifted to highway construction and the railroads constituted an ever decreasing portion of the available road-miles while highways became an ever increasing proportion of the total. Some other implications of the highway program will be discussed in Chapter X of this volume.



1
2 It should be noted here that, as of 1930, at
3 the conclusion of an era of rapid railroad building,
4 Canada had more than twice as many miles of railroad
5 as the U. S. for each unit of population. The rail-
6 way plant in Canada was large enough to provide over
7 4 miles of fixed facilities for each 1,000 persons.
8 This was essentially provided by two large competing
9 companies. In contrast, the U. S., with many
10 dozens of railroad companies, offered only 2 miles of
11 track per 1,000 population. Some of the economic
12 consequences of this fact will be described in
13 more detail in Chapters V and VI.

14 Income vs. Roadway Facilities:

15 It remains to link the various trends
16 in general output with the trends in the provision
17 of basic transportation facilities. Data for 1958
18 on principal elements of the comparison are shown
19 in Table II - 5. Gross national product of Canada
20 in that year was \$32.6 billion. This is expressed
21 in current dollars and is not to be confused with data
22 in other tables which are based on 1954 equivalent
23 dollars. The gross national product of the U. S.
24 as reported in 1958 was 14 times as much as that of
25 Canada. These figures would be somewhat different if
26 allowance were made for differences in exchange
27 rates but for simplicity of presentation, the fore-
28 going is sufficiently accurate. Railroad miles
29 in the U. S. were only 5 times as great as in Canada
30 but highway miles were 20 times as great in the U. S.



Overall, the relationship of total miles of roadway, including both rail and highway, is not much different than the income relationship between the two countries. But there is a striking difference in the rail and highway relationship.

Table II - 5

National Productivity Status in 1958

Canada vs. United States

	Canada	U. S.	Ratio U.S. to Canada
1. Gross national product (billions of current dollars)	32.6	441.9	13.6
2. Miles of railroad (single track)	44,125	218.399	4.9
3. Miles of highway (excluding gravel & stone)	41,988	850,000	20.2
4. Total miles of roadway (2/3)	86,113	1,068,399	12.4
5. Population(000)	17,048	173,232	10.2
6. GNP per mile of roadway (\$000) (1 / 4)	379	414	1.1
7. GNP per capita (\$) (1/5)	1,912	2,551	1.3



Table II - 6

Freight Transportation Relative to Population
of
Canada and United States, 1958

	Revenue Ton-Miles		Ton Miles per 1000 population		
	Canada	U.S.	Canada	U.S.	Ratio
	(billions)		(millions)		U.S. to Canada
1. Railroads	66.4	558.7	3.89	3.22	.83
2. Highways	<u>14.1</u>	<u>247.0</u>	<u>.83</u>	<u>1.43</u>	<u>1.72</u>
3. Total rail & highway	80.5	805.7	4.72	4.65	.99
4. Water	29.4	455.6	1.73	2.63	1.52
5. Air	<u>1/</u>	.6	<u>1/</u>	--	--
6. Pipeline	<u>17.0</u>	<u>211.3</u>	<u>.99</u>	<u>1.22</u>	<u>1.23</u>
7. Total other (4/5/6.)	46.4	667.5	2.72	3.85	1.42
8. Total, all forms	126.9	1473.2	7.44	8.50	1.14

1/ Less than 100 million ton-miles.

Combining the two measures, we find that in 1958 the Canadian economy produced \$379 thousand worth of product and service for every mile of roadway provided while the U. S. economy produced \$414 thousand of goods and services for every mile of roadway. Thus, in the aggregate, the two countries derive about the same degree of productivity from their total road plant. However, the relatively heavy investment in railroads of Canada is graphically illustrated by the low ratio for railroad miles in Table II - 5.

Freight Transportation Generated:

The provision of facilities is only one phase of the economic issue. The economy must also be



1
2 evaluated in the light of the total freight transpor-
3 tation generated. This is done in Table II - 6, which
4 shows the revenue ton miles in 1958 and relates the
5 actual volume of traffic to the population which
6 produced it. It is interesting in this connection
7 to observe the relationship between the traffic genera-
8 ting characteristics of the two countries. Overall
9 Canada generated some 127 billion revenue ton miles
10 of traffic and the U. S. generated roughly 12 times as
11 much -- 1473 billion ton miles. This means 7.44
12 million ton miles of freight were generated by every
13 thousand people in Canada. In the U. S. each thousand
14 people accounted for 8.50 million ton miles of freight.
15 Thus, physical flow of goods is somewhat greater
16 in the U. S. on a population basis.

17 Looking only at the rail and highway traffic,
18 the only two categories which are approximately
19 "all purpose" facilities, it is remarkable how similar
20 the figures are. Thus, the road facilities in
21 Canada handled 4.72 million ton miles of freight for
22 each thousand persons while in the U. S. the correspon-
23 ding figures were 4.65 per thousand. Of course, as
24 Table II - 6 shows, the components are quite different
25 within this road group. The rails in Canada account
26 for relatively more than they do in the U. S. -- per
27 unit of population, but not as we shall see later, per
28 unit of track.

29 GNP and Traffic Volume:

30 It is also of interest to observe the



1 relationship between traffic volume and gross national
2 product. In 1958 Canada's gross national product was
3 \$32.6 billion (current dollars). With 126.9 billion ton
4 miles produced, the Canadian economy was generating 3.9
5 million ton miles for every million dollars of gross
6 national product.

7 ~~On the other hand~~, the U.S. economy had a gross
8 national product of \$441.9 billion (current dollars). With
9 1473.2 billion ton-miles generated, this means an average
10 of 3.3 billion ~~ton~~-miles were produced for every million
11 dollars of gross national product.

12 The foregoing is extremely significant in
13 assessing the impact of economic growth of Canada's trans-
14 portation. The U.S. gross national product requires less
15 intercity transportation than the Canadian gross national
16 product, when measured in terms of ton miles. This is
17 undoubtedly because of the fact that the U.S. economy rests
18 to a considerably greater extent on the production of highly
19 fabricated goods which involve relatively less ton miles per
20 dollar of value. For example, the production of transistors
21 or other electronic equipment generates very few intercity
22 ton miles although the value per ton of product is enormous.
23 Furthermore, the U.S. economy generates a large proportion
24 of services which are not transportation producers.
25 Commodities which are essentially extractive have relatively
26 low values and generate considerable quantities of
27 transportation. Thus, it may be said as a general economic
28 principle that the less developed the economy and the
29 higher the dependence on raw materials and semi-manufactured
30 goods, the larger the number of ton miles per dollar of output



1
2 more closely wedded to the rail network and that there-
3 fore, in such an economy, rail traffic will be a
4 relatively larger portion of the total traffic --
5 other things being equal. This competitive aspect will
6 be discussed in more detail in Chapter X. It is
7 sufficient to observe here that Canada generates a
8 relatively large total volume of traffic per dollar of
9 output although its traffic volume is about the same as
10 that of the U. S. when expressed per unit of population.

11 Intensity of Fixed Facilities:

12 We can now bring together the traffic com-
13 parisons and the analyses of the fixed facilities --
14 the roadway. Table II - 7 shows the volume of
15 freight transportation in terms of intercity ton miles,
16 relative to the miles of right of way over which the
17 traffic moves. Looking at the railroads alone,
18 traffic density in the U. S. is far above that in
19 Canada -- 2.56 million tons of revenue freight traffic
20 for every mile of roadway compared with only 1.51 million
21 in Canada. This is consistent with what has previously
22 been indicated as to the relative volume of railways
23 trackage.

24 Highway figures show much less intensity of
25 use than do the rail facilities in both countries. It
26 is interesting, however, that in Canada the highway
27 density is somewhat greater than in the U. S. Thus, in
28 Canada the average mile of highway handles roughly 340
29 thousand tons while in the U. S. the average mile
30 handles only 290 thousand tons per year. In Canada



1
2 the highway traffic density is only about one-fifth of
3 the rail level but in the U. S. the highway density is
4 relatively much less -- only about one-tenth of the
5 rail density.

6 As a result of the foregoing, the composite
7 road-mile, including rail and highway, has a density
8 of only 930 thousand tons in Canada and 750 thousand
9 tons in the U. S. The low total utilization in the
10 U. S. arises from the large proportion of highway
11 miles in service. These facts have great cost
12 significance for Canada's transportation system. Some
13 implications of the data will be discussed in sub-
14 sequent chapters.



Table II - 7

Freight Transportation Relative to Roadway
Facilities
Canada and the United States, 1958

	<u>Canada</u>	<u>U. S.</u>
1. Railroads: traffic (billion ton miles)	66.4	558.7
2. road miles (000)	44.1	218.4
3. density (million per mile)	1.51	2.56
4. Highways: traffic (billion ton-miles)	14.1	247.0
5. road miles (000)	42.0	850.0
6. density (millions per mile)	.34	.29
7. Total Road: traffic	80.5	805.7
8. road miles (000)	86.1	1,068.4
9. density (millions per mile)	.93	.75

I would like to add some comments to Chapter II.

Chapter II really attempts to sum up the importance of transportation in the Canadian economy, starting out by emphasizing the fact that while Canada is a country with a sparse population, and certainly much less intensely used land area than in the United States, it has had a vigorous growing economy as measured by gross national product, which is shown in the tables on page 5. The gross national product is a measure of the total activity of the country expressed in dollar terms but reflecting the physical equivalent of the goods and services produced by all the people of



1
2 the nation. It makes a very useful yardstick on page
3 7 where we begin to identify industrial production alone
4 as distinct from the total output of the nation.

5 Q. I notice, Mr. Saunders, in Chapter II,
6 as in other succeeding chapters, you do make comparisons.
7 between conditions in Canada and the United States.
8 Of what assistance do you think this is in the presen-
9 tation of your report, and particularly to the Commission?

10 A. I believe this sort of comparison is
11 helpful, first, because the United States is close by
12 and has similar characteristics from the standpoint of
13 terrain and, to a certain extent, climate; but essen-
14 tially because much of the technology, both trans-
15 portation and industrial, in Canada is very similar to
16 that in the United States. And, by having available
17 to us a comparative yardstick we are in a better
18 position to assess the relative growth, the relative
19 performance of either the Canadian economy or the
20 Canadian transportation industry.

21 Q. Thank you, sir.

22 A. I think, further, that with the United
23 States as a recognized technological leader we have
24 an opportunity to make comparisons which enable us to
25 project a little bit into the future as to what
26 Canada's transportation outlook may be.

27
28
29
30



1
2 Now, beginning at page 8, it might be
3 helpful ---

4 COMMISSIONER MANN: Mr. Saunders, is there
5 any way in which you can tell us in what respect the
6 yardstick fails? - at some time, not now.

7 THE WITNESS: I think that will come up as
8 we go along, sir.

9 Now, the one I am about to address myself
10 to now is a good illustration of that. One must
11 always be judicious in any comparison to make sure
12 one is comparing like with like. As an economist,
13 I am very aware of this problem not to overstate in
14 numbers. You still have to get down to the essential
15 conclusion, and I think we will do that when we get
16 down to the report.

17 MR. MacKIMMIE Q: Rather than take
18 page 8, I think the transcript would be better if you
19 referred to the table of comparisons in your
20 submission.

21 A. I would like to call attention to
22 this matter of facilities and the importance of the
23 fixed facilities provided for the movement of goods.

24 "While output has increased, what
25 of the transport capacity available to
26 handle the output? One useful test is
27 the amount of fixed facilities over which
28 goods may move, measured in terms of
29 mileage by rail and highway. Such
30 figures are not entirely complete or,



1
2 indeed, entirely consistent with one
3 another because they do not include
4 waterway mileage and because they do not
5 have exactly the same characteristics
6 in various territories. Thus, a mile of
7 highway may be wide or narrow and in
8 good or bad repair. An expressway can
9 handle much more traffic much more
10 economically than a winding country road
11 which becomes completely tied up when a
12 single truck passes over a hill. Despite
13 these technical limitations, however, the
14 trend here can be most illuminating in
15 explaining how the economy manages to move
16 its output. Table II - 4 compares the
17 right-of-way facilities of the U.S. and
18 Canada during the period 1930 to 1958,
19 relative to the population to be served.
20 Because we are interested in the movement
21 of intercity freight, only hard surfaced
22 highways are included.

23 It is interesting that overall, the
24 total amount of right-of-way has changed
25 so little in Canada relative to population.
26 Thus, the country has offered about five
27 miles of railway plus highway facility for
28 each 1,000 people during the past 30 years.
29 This is somewhat less than is offered in
30 the U.S."



1 I want to explain that after we go
2 through this I will comment further on the significance
3 of using the gravel and other types of surfaced
4 highways in Canada and in the United States. I
5 believe the essential economic principle I want to
6 develop here is best made by this hard surfaced
7 comparison here. We have to recognize certain
8 ranges of difference in the two countries.
9

10 "Table II - 4 also shows the 'mix' of
11 facilities in the two countries. It is
12 interesting to observe that in 1930
13 Canada's right-of-way consisted very
14 largely of railroad tracks. Canada's
15 railroads were a much more important
16 capital facility for the people of Canada
17 than were the railroads of the U.S. As
18 population developed in Canada, the emphasis
19 shifted to highway construction and the
20 railroads constituted an ever decreasing
21 portion of the available road miles while
22 highways became an ever increasing
23 proportion of the total. Some other
24 implications of the highway program will
25 be discussed in Chapter X of this volume.

26 It should be noted here that, as of
27 1930, at the conclusion of an era of rapid
28 railroad building, Canada had more than
29 twice as many miles of railroad as the
30 U.S. for each unit of population. The



1
2 railway plant in Canada was large enough
3 to provide over 4 miles of fixed facilities
4 for each 1,000 persons. This was
5 essentially provided by two large competing
6 companies. In contrast, the U.S., with
7 many dozens of railroad companies, offered
8 only two miles of track per 1,000
9 population. Some of the economic
10 consequences of this fact will be described
11 in more detail in Chapters V and VI."

12 Now, in that connection I want to comment
13 that the use of gravel roads is extensive in both
14 countries, and if we had made the comparison on the
15 basis of all surfaced miles we would have a somewhat
16 different showing. If you look at Table II - 4
17 where we have about one mile of highway in Canada
18 per 1,000 population in the 1940 period, had we
19 used all surfaced highway miles we would have had
20 10.3 miles of total surfaced highway capacity; and
21 in 1958, instead of 2.5 miles per thousand, we would
22 have had 14.8 miles. Now, the trend is similar
23 in both comparisons, but you will see a tremendous
24 increase in total mileage when you include all the
25 miles regardless of type of surfacing. If we go
26 to the United States it is roughly the same amount
27 of mileage, 10.4 miles, of surfaced highways of all
28 kinds in 1941 (I don't happen to have the 1940 figure
29 available), about the same as in Canada; and the 1958
30 figure, instead of being 4.0 miles in the United States,
would become 12.0 miles, including the totally surfaced



1 highway.

2 Now, it certainly is true that traffic moves
3 over the dirt road from the farm to the nearest highway,
4 but from an economic point of view and from the
5 standpoint of total economic development, the critical
6 thing, it seems to me, is the way the country looks at
7 the provision of these highway facilities; and where
8 traffic is increasing or is considered important or
9 the prospects are for increased demand, their government
10 spends the substantial sums that are required to have a
11 highway in a hard surfaced condition. So in that
12 respect I thought we should make these comparisons,
13 recognizing that a significant amount of traffic may
14 move over other types of highway. Canada has
15 depended much more on rail than on highway than the
16 United States.

17 I think it is also well to talk in a
18 little more detail about the freight transportation
19 generated.

20 "The provision of facilities is only
21 one phase of the economic issue. The
22 economy must also be evaluated in the
23 light of the total freight transportation
24 generated. This is done in Table II - 6,
25 which shows the revenue ton-miles in 1958
26 and relates the actual volume of traffic
27 to the population which produced it. It
28 is interesting in this connection to
29 observe the relationship between the traffic
30



1 generating characteristics of the two
2 countries. Overall Canada generated some
3 127 billion revenue ton-miles of traffic
4 and the U.S. generated roughly 12 times as
5 much - 1473 billion ton-miles. This
6 means 7.44 million ton-miles of freight were
7 generated by every thousand people in Canada.
8 In the U.S. each thousand people accounted
9 for 8.50 million ton-miles of freight. Thus,
10 physical flow of goods is somewhat greater
11 in the U.S. on a population basis.

12 Looking only at the rail and highway
13 traffic, the only two categories which are
14 approximately "all purpose" facilities, it is
15 remarkable how similar the figures are.
16 Thus, the road facilities in Canada handled
17 4.72 million ton-miles of freight for each
18 thousand persons while in the U.S. the
19 corresponding figures were 4.65 per thousand.
20 Of course, as Table II - 6 shows, the
21 components are quite different within this
22 road group. The rails in Canada account
23 for relatively more than they do in the U.S.
24 -- per unit of population but not as we shall
25 see later, per unit of track."

26 MR. SINCLAIR: What does "single track" mean
27 in Table II - 5?

28 THE WITNESS: We have expressed the mileage
29 of fixed facilities in terms of the roadway treating
30



each mile as single track. Some areas will have more than one mile of track per mile of road, but in order to get the equivalent of a highway description we have taken a mile of highway and a mile of railway on the same basis. We don't figure how many lanes there are on highways, we don't figure how many lines there are on railways. That is the essential reason for the comparison.

CHAPTER III

THE RAILROAD SHARE OF THE MARKET

The preceding chapter has shown the great growth of the economy and the growth in the provision of transportation facilities. To what extent have the railways participated in the economy's growth? One direct test is the relationship of railway revenue to total gross national product. The dollars of revenue after all are the starting point for the calculation of net earnings.

As shown in Table III - 1, railway operating revenue in Canada has increased substantially over the years but not as fast as the gross national product. As a result railroad activity represents a declining proportion of the total Canadian economy. Thus in 1926 railroad revenue amounted to 9.59 per cent of the total value of goods and service in the nation. By 1958 the railway proportion was only 3.57 per cent.

At the same time it is interesting to note that similar trends were occurring in the U.S. The railways have been a relatively smaller share of the



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16022

1 U.S. total in all years studied, in part for the
2 various reasons mentioned in Chapter II. However,
3 it is interesting that in 1926 the U.S. railroads
4 accounted for only 6.6 per cent of the total gross
5 national product compared with 9.59 per cent for the
6 railways in Canada. By 1958 the U.S. railroads were
7 producing only 2.81 per cent of the gross national
8 product in terms of revenue.
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TABLE III - 1

Gross National Product and Railway Operating
Revenue in Canada and United States.

Selected Years, 1926 - 1958
(Current Dollars)

Year	Canada			U.S.		
	Gross National Product (millions of dollars)	Railway Operat- ing Rev- enues	Rev. as per cent of GNP	Gross Nat. Prod. 1/ (millions of dollars)	Railway Operat- ing Revenue	Revenue as per cent of GNP
1926	5152	494	9.59	98600	6509	6.60
1931	4699	359	7.64	76300	4246	5.56
1936	4653	335	7.20	82700	4109	4.97
1941	8328	538	6.46	125800	5414	4.30
1946	11850	719	6.07	210700	7709	3.66
1951	21170	1089	5.14	329000	10512	3.20
1953	25020	1206	4.82	365400	10788	2.95
1955	27070	1198	4.43	397500	10230	2.57
1957	31773	1263	3.98	442800	10625	2.40
1958	32606	1164	3.57	444200	9686	2.18

1/ Revised series 1951 - 1958.



1
2 The foregoing comparisons are based on
3 current dollars for each year. Naturally the railway
4 revenue in comparison with the gross national product
5 is affected by a number of factors. Thus, changes
6 in the price level for the economy as a whole as
7 compared with that of the railways is one element in
8 the percentage. Likewise the volume of traffic which
9 produced the revenues is another consideration.
10 Changes in the consist of traffic can have an effect
11 on the aggregate revenue

12 It may be urged that this comparison tends
13 to overstate the decline in importance of the
14 railroads. It is sometimes argued that railway
15 revenues, being subject to regulation, are depressed
16 relative to the dollar output of the economy as a
17 whole, where prices can fluctuate more freely. However,
18 it should be recognized that an important element in
19 railway revenues is the factor of competition. Because
20 of competition, it is really not so obvious that
21 railway operating revenues would be significantly
22 greater if there were no regulation.

23 In this connection we can draw some
24 instructive observations by comparing Canada and the
25 U.S. While railroads are regulated in both countries,
26 the detailed circumstances and conditions are quite
27 different. Yet Table III - 2 shows some surprisingly
28 similar trends.

29 This table uses the 1926 relationship as a
30 base period to permit analysis of the relative trend in



1 the railroad participation in the nation's output.
2 From the prosperous period of the middle twenties to
3 the depression period (1926-1931) the railroad
4 participation declined 20 per cent in Canada and 16
5 per cent in the U.S. The share continued to fall
6 through the war years. By 1946 the railroads in
7 Canada accounted for 37 per cent less than they did in
8 1926 and the railroads in the U.S. accounted for 45
9 per cent less than they did in 1926.
10

11 By 1958 it is important to note that the
12 railroad role, measured by revenue, had declined almost
13 to the same extent in both countries. In 1958 the
14 Canadian proportion was only 37 per cent as much as it
15 was in 1926. In the U.S., even with all the
16 differences in price levels, product mix, and so on,
17 the railroad role was only 33 per cent as much as in
18 1926 -- not much different from the situation in
19 Canada.
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TABLE III - 2

Railroad Participation in the Economy of
Canada and United States

Index of the Railway Revenue as a Proportion of GNP

	<u>Canada</u>	<u>United States</u>
1926 per cent of GNP	9.59	6.60
Index, 1926 = 100	100	100
1931	80	84
1936	75	75
1941	67	65
1946	63	55
1951	54	48
1953	50	45
1955	46	39
1957	42	36
1958	37	33



TABLE III - 3

Ton-Miles per Capita and Per Unit of GNP
1938 and 1958 Canada

		<u>1938</u>	<u>1958</u>	<u>Per Cent Change</u>
	Ton-miles of Revenue Freight: (millions)			
1.	All carriers	49,039	126,878	158.7
2.	Railroads	26,835	66,357	147.3
3.	Population (000)	11,152	17,048	52.9
4.	GNP - Constant 1954 dollars (000000)	10,930	29,488	169.8
	Ton-Miles per Capita: (thousands)			
5.	All carriers	4.40	7.44	69.1
6.	Railroads	2.41	3.89	61.4
	Ton-Miles per Dollar of GNP:			
7.	All carriers	4.49	4.30	- 4.23
8.	Railroads	2.46	2.25	- 8.54



Traffic Relative to Population.

While the railroads have represented a declining proportion of the total economy in dollar terms, they represent an increasing element when measured in relation to total population. Table III - 3 shows relative traffic trends between 1938 and 1958. Total ton-miles generated increased 159 per cent while the railroad volume increased only 147 per cent.

On the other hand, the railroads' traffic has increased nearly three times as fast as population, indicating that the people of Canada are producing more physical goods susceptible to rail transport than formerly. Thus, in 1938 each person in Canada accounted for some 2400 ton-miles of railroad traffic whereas in 1958 each person produced the equivalent of nearly 3900 railroad ton-miles. This is an increase of 61 per cent during the twenty year period.

It can be seen, however, that the total movement by all types of carriers increased from 4400 to 7400 ton-miles per person - 69 per cent. We may anticipate that the general development of the country will produce further increases in the annual ton-miles per capita.

On the other hand, it is to be expected that the rate of growth will decline. This shows up when we analyze trends in gross national product in relation to ton-miles. Again looking at Table III - 3, it will be seen that the railroad output per dollar of gross national output has declined from 2.46 ton-



1
2 miles for every dollar of gross national product in
3 1938 to only 2.25 ton-miles for every dollar of gross
4 national product in 1958.

5 This is not entirely a matter of diversion
6 of traffic from railroads to other forms of
7 transportation. Thus, if we look at the total ton-
8 miles generated by the economy (per dollar) and moved
9 by all forms of transport, we find that the trend was
10 down from 4.49 ton-miles in 1938 to 4.30 ton-miles
11 in 1958. In short, we may be witnessing the
12 beginning of a decline similar to that commented on
13 previously in connection with the trends in the U.S.
14 As the Canadian economy becomes more complex, the total
15 ton-miles per dollar of national output may decline
16 still further.

17 In the future, it may be an even more
18 difficult struggle for the railroads to maintain their
19 share of the total gross national product. As the
20 economy grows more complex, its output will be less
21 and less suited to rail transport. Even with complete
22 rate freedom, the railroads may not be able to obtain
23 the same ton-miles per dollar of GNP as they did in
24 earlier years.

25 Trend of Truck Registrations.

26 If we are correct in our appraisal of trends
27 in the economy, we shall expect to find an increase
28 in truck activity.

29 In fact the growth in highway mileage
30 previously described has been accompanied by rapid



increases in the number of motor trucks registered in the country. The trend is shown in Table III - 4, with details reported by province for selected years between 1928 and 1959. Quickly told, the tale is that the number of vehicles registered has increased 8-fold since 1928. Since the close of World War II the number of truck registrations has increased from 315 thousand to approximately 1,100 thousand units. Of course, most of the units are small trucks used for relatively short hauls in metropolitan areas or in and around farms. However, there is no question that the volume of intercity traffic handled by these vehicles is increasing rapidly.

Intercity Ton-Miles.

For confirmation of this we have merely to look at the figures on intercity ton-miles. Unfortunately such figures have been compiled only since 1938 but even for this period the trends are clear and unmistakable.

The distribution of intercity traffic among the different types of carriers is shown in Table III - 5 for each of the years 1938 through 1958. The percentage distribution of these ton-miles among carriers is shown in Table III - 6 and the trend of traffic within each category, with 1949 used as a base of 100, is shown in Table III-7.



TABLE III - 4

Motor Truck Registrations in Canada -
By Provinces. Selected Years, 1928 - 1959.

<u>Province</u>	<u>1928</u>	<u>1945</u>	<u>1955</u>	<u>1959</u>
Newfoundland	N.R.	N.R.	11,140	N.R.
Prince Edward Is.	443	2,043	6,142	7,056
Nova Scotia	4,538	15,049	36,165	39,273
New Brunswick	2,668	12,155	23,467	24,202
Quebec	21,747	52,403	151,933	190,358
Ontario	54,714	99,618	309,294	385,088
Manitoba	6,691	22,609	54,592	66,280
Saskatchewan	15,975	42,939	105,415	117,383
Alberta	8,919	36,262	116,078	135,229
British Columbia	13,835	32,185	98,557	117,333
Yukon - N.W.T.	<u>48</u>	<u>343</u>	<u>2,012</u>	<u>2,819</u>
Total	129,578	315,606	914,795	1,085,021

Source: Dominion Bureau of Statistics publication, the
Motor Vehicle; J-C. Lessard's Transportation
in Canada, Schedule 2A.



Table III - 5

Intercity Ton-Miles Performed by Type of
Carrier Canada, 1938-1958.

Year	Millions of Ton-Miles of Revenue Freight					Total
	Rail	Road	Water	Air	Oil Pipe Line	
1938	26,835	1,515	20,688	1	-	49,039
1939	31,465	1,670	19,625	1	-	52,761
1940	37,898	1,847	19,188	1	-	58,934
1941	49,982	2,237	19,688	2	-	71,909
1942	56,154	2,424	17,532	2	-	76,112
1943	63,915	2,458	18,032	3	-	84,408
1944	65,928	2,668	17,313	3	-	85,912
1945	63,349	2,995	18,750	3	-	85,097
1946	55,310	3,501	15,657	3	-	74,471
1947	60,143	4,310	18,063	4	-	82,520
1948	59,080	5,193	19,782	7	-	84,062
1949	56,338	5,920	20,469	8	-	82,735
1950	55,538	7,597	23,032	10	1,496	87,673
1951	64,300	8,238	24,625	11	3,551	100,725
1952	68,430	8,903	26,313	17	4,793	108,456
1953	65,267	9,778	28,001	21	6,992	110,059
1954	57,547	10,012	25,250	20	9,270	102,099
1955	66,176	10,248	29,282	31	12,928	118,665
1956	78,820	10,614	33,594	39	18,141	141,208
1957	71,047	10,679	31,251	38	19,190	132,205
1958	66,357	14,078	29,457	35	16,951	126,878



1
2 In pre-war years, the railroads accounted
3 for substantially over half of the traffic. During
4 the war, as other forms of transport were curtailed,
5 the rail proportion rose substantially, reaching a
6 maximum of 76.7 per cent in 1944. Since that time
7 there has been a fairly steady erosion. By 1958
8 the rails accounted for only 52.3 per cent of the
9 total traffic.

10 During this same period water carriers
11 were cut sharply by the wartime experience - in terms
12 of their proportion of their total traffic although
13 not so much in terms of their absolute volume. In
14 recent years water carriers have accounted for
15 approximately one-fourth of the total traffic.

16 As demand for petroleum rose and as new
17 discoveries were made, pipelines assumed a new role
18 in the economy. Since 1950 the ton-miles moving
19 by pipeline have increased from 1.5 billion to a
20 peak of 19.2 billion in 1957. In 1950 pipelines
21 accounted for 1.7 per cent of the total traffic,
22 whereas in 1957 they represented 14.5 per cent of the
23 total.

24 Importance of Trucking.

25 Water lines and pipelines are relatively
26 specialized carriers. Air carriers are perhaps
27 less specialized but their total volume is still a
28 relatively small, although growing, proportion of the
29 total.
30



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Table III - 6

Intercity Ton-Miles Performed by Type of
Carrier Canada, 1938-1958

Percentage Distribution

	<u>Year</u>	<u>Rail</u>	<u>Road</u>	<u>Water</u>	<u>Air</u>	<u>Oil Pipe Line</u>	<u>Total</u>
1							
2							
3							
4							
5							
6	1938	54.7	3.1	42.2	*	-	100.0
7	1939	59.6	3.2	37.2	*	-	100.0
8	1940	64.3	3.1	32.6	*	-	100.0
9	1941	69.5	3.1	27.4	*	-	100.0
10	1942	73.8	3.2	23.0	*	-	100.0
11	1943	75.7	2.9	21.4	*	-	100.0
12	1944	76.7	3.1	20.2	*	-	100.0
13	1945	74.5	3.5	22.0	*	-	100.0
14	1946	74.3	4.7	21.0	*	-	100.0
15	1947	72.9	5.2	21.9	*	-	100.0
16	1948	70.3	6.2	23.5	*	-	100.0
17	1949	68.1	7.2	24.7	*	-	100.0
18	1950	63.3	8.7	26.3	*	1.7	100.0
19	1951	63.8	8.2	24.5	*	3.5	100.0
20	1952	63.1	8.2	24.3	*	4.4	100.0
21	1953	59.3	8.9	25.4	*	6.4	100.0
22	1954	56.4	9.8	24.7	*	9.1	100.0
23	1955	55.8	8.6	24.7	*	10.9	100.0
24	1956	55.8	7.5	23.8	*	12.9	100.0
25	1957	53.8	8.1	23.6	*	14.5	100.0
26	1958	52.3	11.1	23.2	*	13.4	100.0

* Less than one-tenth of one per cent



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Table III - 7

Index of Intercity Ton-Miles Performed by
Type of Carrier Canada, 1938-1958
(1949 = 100)

Millions of Ton-Miles of Revenue Freight

<u>Year</u>	<u>Rail</u>	<u>Road</u>	<u>Water</u>	<u>Air</u>	<u>Oil Pipe Line</u>	<u>Total</u>
1938	47.6	25.6	101.1	12.5	-	59.3
1939	55.9	28.2	95.9	12.5	-	63.8
1940	67.3	31.2	93.7	12.5	-	71.2
1941	88.7	37.8	96.2	25.0	-	86.9
1942	99.7	40.9	85.7	25.0	-	92.0
1943	113.5	41.5	88.1	37.5	-	102.0
1944	117.0	45.1	84.6	37.5	-	103.8
1945	112.5	50.6	91.6	37.5	-	102.9
1946	98.2	59.1	76.5	37.5	-	90.0
1947	106.8	72.8	88.2	50.0	-	99.7
1948	104.9	87.7	96.6	87.5	-	101.6
1949	100.0	100.0	100.0	100.0	-	100.0
1950	98.6	128.3	112.5	125.0	100.0	106.0
1951	114.1	139.2	120.3	137.5	237.4	121.7
1952	121.5	150.4	128.6	212.5	320.4	131.1
1953	115.9	165.2	136.8	262.5	467.4	133.0
1954	102.2	169.1	123.4	250.0	619.7	123.4
1955	117.5	173.1	143.1	387.5	864.2	143.4
1956	139.9	179.3	164.1	487.5	1212.6	170.7
1957	126.1	180.4	152.7	475.0	1282.8	159.8
1958	117.8	237.8	143.9	437.5	1133.1	153.4



Now, in connection with Chapter III,
entitled "The Railroad Share of the Market", I would
like to point out that the railways have been declining
in terms of their share of total participation of
the development of the economy, and we can demonstrate
this by looking at the railway revenue as a percentage
of gross national product over the years, and we will
find that Canadian railways accounted for $9\frac{1}{2}$ per cent
of the total gross national product in 1926, and now
they are down to about $3\frac{1}{2}$ per cent of the total
gross national product. That is shown in Table III - 1.
But this phenomenon has been occurring elsewhere; it
has occurred in the United States as well, and also
that the United States railways were a lesser proportion
of the total in earlier years, $6\frac{1}{2}$ per cent, roughly,
in the period of the 1920's, instead of close to
10 per cent in Canada.

But it is also interesting to note that
while the total gross national product declined in both
countries, there hasn't been a very marked difference
in the decline. Canada started at a somewhat higher
level and is still at a high level of dependence on
the railways, and relatively the railways in both
countries have declined about to the same extent.
They are now both about a third as important in the
economy as they were in 1926. That is interesting
because there are so many differences in the economies
of the countries, and yet, curiously, you are
experiencing in Canada something that is almost



1
2 generic.

3 Q. Anything further you wish to point
4 out with respect to Table III - 3 itself, Mr. Saunders?

5 A. No, I think it speaks for itself and
6 the text as given in the report is adequate on this
7 account.

8 On Table III - 4 I show some of the
9 development in truck competition, as measured by the
10 number of truck registrations, and in 1959 you will
11 note the symbol "N.R.", meaning not reported, because
12 at the time this went to the printer we had no figure
13 for Newfoundland. I have since developed that figure,
14 and if we insert in 1959 for Newfoundland, there were
15 14,100 motor trucks registered. That would change
16 the total for 1959 to 1,099,121 in place of the figure
17 of 1,085,021 which now appears in the table. But
18 you can see from the figures generally that the volume
19 of truck registrations has increased almost ten-fold
20 during the last 30 years.

21 Q. I take it, Mr. Saunders, that this
22 includes all class trucks; they are not merely trucks
23 that carry freight?

24 A. They are all the trucks. Local and
25 intercity may be a way of summarizing it.

26 Table III - 5 shows the tremendous growth
27 in total traffic measured by intercity ton-miles, and
28 also shows what has been happening to the relationship
29 between rails and other forms of transport.
30



1
2 This can be visualized simply by referring
3 to chart III - 1 which is at the close of that chapter,
4 and at page 31 for those who have the volume. You
5 will see on this chart very simply what has happened
6 to the important modes of transportation in Canada
7 since 1938. The wide grey line is the trend of
8 total traffic using 1949 as a base year of 100. As
9 we might expect with the growth of the economy the
10 total volume of traffic has been generally upward with
11 a little dip between 1956 and 1959. But during this
12 period the railways rose during the war years to a
13 peak in about 1944, and then have suffered some
14 gentle declines until 1950 and have again picked up
15 so that by 1956 they were actually considerably above
16 the wartime peaks. However, essentially they have
17 lagged the growth of the economy as shown by the
18 relationship of the solid black line to the railways
19 and the grey line for the total traffic.

20 Q. Is there any significance in the fact
21 that the curve for rails is about parallel to waterways
22 and all traffic? I notice that in 1956 while the rails
23 did increase so did water traffic and the general
24 trend?

25 A. Well, yes; the general trend is a
26 function of the development of the economy. When
27 business as a whole is good total traffic picks up, but
28 the waterways while they have increased somewhat have
29 been a relatively more stable force in the economy.
30 They represent specialist movements to a large extent



1
2 and not the movement of general freight. In contrast,
3 however, the highway line with the large dashes, you
4 will see starts well below the level of the economy
5 as a whole and rises very rapidly during this period,
6 and we may expect it will continue to rise.

7 COMMISSIONER MANN: Mr. Saunders, I have
8 only been given this brief this morning and if my
9 question has an answer in it please forgive me for
10 asking it, but your intercity ton miles, waterways,
11 on Chart III - 1, I don't know what your source for
12 that is, but am I right in assuming that these ton
13 miles are only the package freight ton miles and that
14 this does not include ton miles by waterways, on
15 waterways, or bulk cargo?

16 THE WITNESS: It does include the bulk
17 cargo.

18 COMMISSIONER MANN: Could we have the source?

19 THE WITNESS: These are DBS statistics.

20 THE CHAIRMAN: They include grain and ore?

21 THE WITNESS: Yes, sir.

22 COMMISSIONER MANN: Does it include coastal
23 and inter coastal?

24 THE WITNESS: It includes the coastal. It
25 does not include the inter coastal, and in our discussion
26 with the DBS people who prepared these figures, we
27 were advised the amount of inter coastal is very small,
28 so we felt safe in using this as a general yardstick
29 for total traffic.

30 ----Short Recess.



1
2 THE WITNESS: The highway carriers are
3 most nearly in the common carrier class like the
4 railroads. This does not mean that all highway
5 carriers are common carriers. It does mean that the
6 traffic handled over the highway includes a much
7 wider range of commodities than is characteristic of
8 water, air and pipeline traffic. During the pre-war
9 and war years, truck transportation accounted for
10 approximately 3 per cent of Canada's total freight
11 traffic. By 1958, however, truck traffic accounted for
12 11.1 per cent of total traffic and was still climbing.

13 As Table III - 7 shows, using 1949 as a
14 base, rail traffic in 1958 had increased 18 per cent
15 but truck traffic had increased 138 per cent. While
16 truck traffic is still roughly only one-half as great
17 as water traffic, it is growing rapidly while the
18 ton-miles moving by water have remained relatively
19 stationary.

20 Chart III - 1 summarizes the principal trends
21 in graphic form.

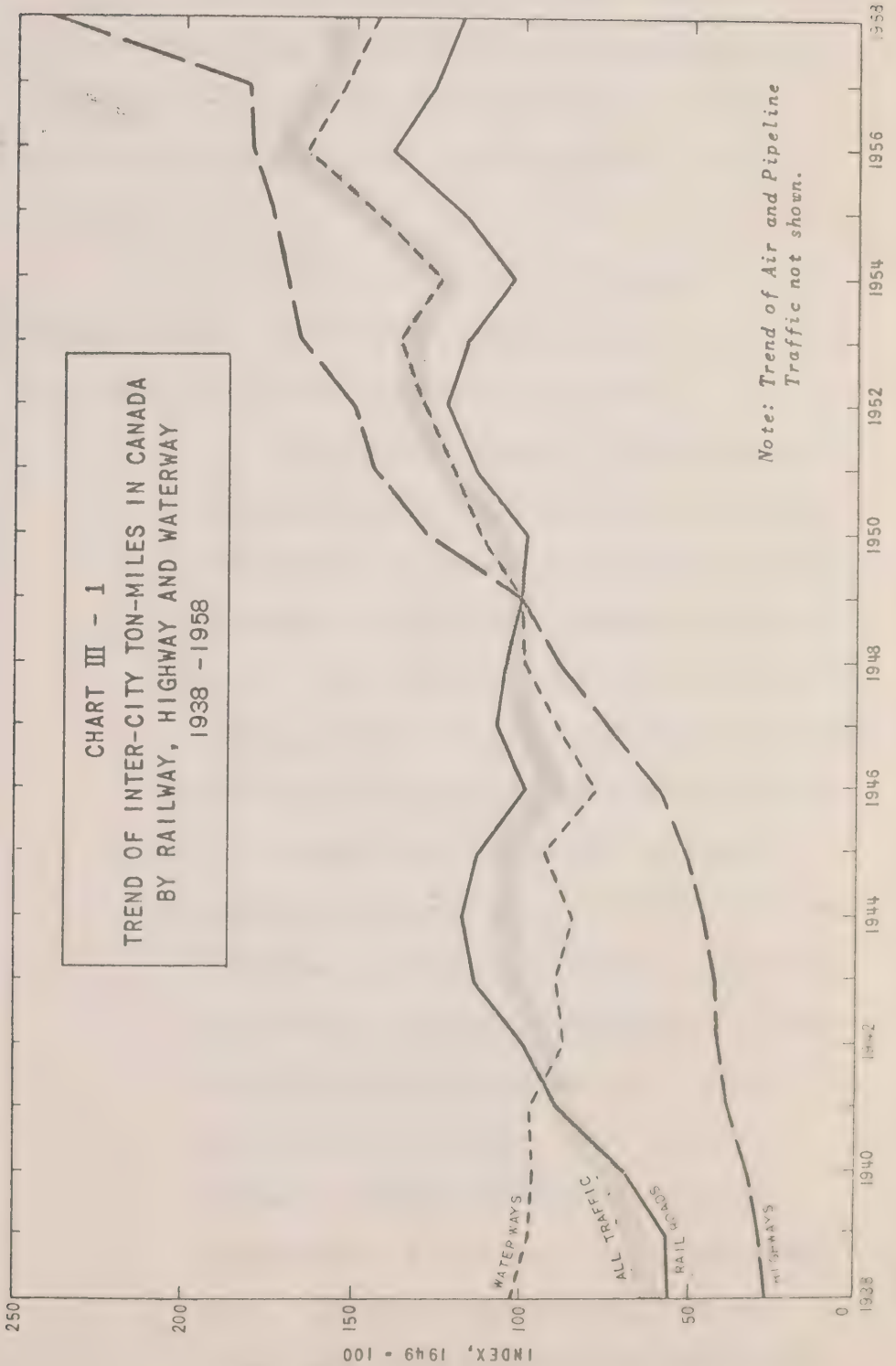
22 Conclusion on Traffic Trends:

23 It is clear from the foregoing that the
24 Canadian railroads have been subject to steady erosion
25 of traffic under peacetime conditions. The trends are
26 of long standing. If they continue, it is inevitable
27 that further revenue problems will arise. As will
28 be shown hereinafter, the prospect of diminished, or even
29 stable, traffic volume foreshadows serious cost
30 consequences as well. Any combination of revenue and



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cost pressure would naturally squeeze net earnings.

CHAPTER IV

THE ROLE OF GOVERNMENT

The preceding chapters have indicated that railway mileage has been relatively high in Canada and that railway traffic has been declining. In this chapter, we shall consider how the railway plant came into being.

Professor L.T. Fournier ("Railway Nationalization in Canada", Toronto, 1935, page 1) described the matter succinctly as follows:

"The direct cause of the burdensome railway situation in Canada is the over-investment in railway facilities resulting originally from unwise methods of government aid. The indirect cause was the World War which brought to a close a decade of remarkable expansion of Canadian industry and trade. The period from 1903 to 1914 in Canada was unusually prosperous. Population due to a large influx of immigrants, increased rapidly and a spirit of unbounded optimism prevailed through the country. Under these conditions there was a period of intense railway construction actively sponsored by a lavish policy of government aid. When the war started, two new transcontinental railways, the Grand Trunk



1 Pacific-National Transcontinental Railway
2 and the Canadian Northern system, were
3 approaching completion. As a result of
4 the war and the inevitable collapse of
5 the period of industrial expansion, the new
6 railways found themselves in serious
7 financial difficulties. Under these
8 circumstances and in view of the heavy
9 responsibility of the Dominion Government
10 with respect to these enterprises, there
11 seemed nothing for the government to do but
12 to take them over and operate them along
13 with the existing Canadian Government
14 Railways. To round out the system, the
15 Grand Trunk Railway was also absorbed and
16 after a program of coordination, these
17 various properties emerged as the Canadian
18 National Railways."

19 The government of Canada has played a major
20 role in the development of transportation, including
21 railway transportation, since the beginning of the
22 nation. Government aid has included the expenditure
23 of public funds, the extension of public credits, the
24 grant of public lands and other forms of encouragement
25 to provide or to make more readily available the
26 transportation facilities needed by the country. Much
27 of the expenditure has come about not merely with a
28 view of meeting expansion needs but for specific reasons
29 of national policy. As the Royal Commission in 1931
30



commented:

"The development of transportation in Canada, and particularly the railways, has been influenced to such an extent by considerations broadly political in character that a knowledge of the historical background of Canadian transportation is indispensable to an adequate appreciation of the present situation."

This observation is still valid.

Some of the government activities have had a major impact on the nature of the present railway system and the structure of costs and revenues presently experienced. The obligation of the federal government to the Maritime provinces resulted in the building of the Inter-Colonial Railway from Halifax, Nova Scotia to the St. Lawrence River at Riviere du Loup, supplemented by the construction of the Prince Edward Island Railway and the development of ferry service between this island and the mainland.

It is interesting to observe how strongly feelings run on these matters. Professor G.P. de T. Glazebrook comments on the difficulties of the Intercolonial as follows (in his "A History of Transportation in Canada," 1938, Toronto, at page 213):

"It remains to consider briefly the success of this first experiment by the Dominion in public ownership of railways. Care must be taken, however, in drawing



1
2 general conclusions from the bare figures
3 of the financial returns of the Intercolonial.
4 It is doubtful whether even its sponsors
5 expected to see it as a paying proposition,
6 for it was -- in no sinister sense --
7 a political railway: that is to say, it
8 was designed to serve the political and
9 economic needs of the state."

10 He then goes on to quote Professor H.A.
11 Innis (from "Problems of Staple Production in Canada,"
12 Toronto, 1933, p. 35) as follows:

13 "Considering the circumstances under
14 which the road was built no amount of
15 statistical analysis of surplus and deficits
16 can prove or disprove its success. A
17 deficit may be an indication of success
18 inasmuch as it results from lower rates and
19 a more satisfactory union between Canada
20 and the Maritime provinces. If the road must
21 be regarded as an essential part of
22 Confederation, its success is measured in
23 terms of the value of Confederation."

24 Likewise, in order to connect British
25 Columbia with eastern Canada, the Canadian Pacific
26 Railway was formed, with the government undertaking the
27 work initially but later being replaced by a private
28 syndicate. When the shift was made to a private
29 group, the government agreed to subsidize the new
30



1
2 company with a gift of money, land and railroad lines
3 already built. During the period of construction,
4 the government guaranteed the securities of this
5 company. .

6 In its submission of October 1949 before
7 the Turgeon Commission (Appendix to Part I, pp. 14 and
8 15), the Canadian Pacific Railway itself describes its
9 birth pangs in the following terms:

10 "The federation of the provinces
11 of Canada, New Brunswick and Nova Scotia
12 under the British North America Act in
13 1867 predicated the building of railways
14 to join the provinces. The direct
15 interest in this phase of the union was
16 manifest in the undertaking by the Dominion
17 government of the construction of the
18 Intercolonial Railway.

19 Suspicion that the enormous expansion
20 taking place in the western territories of
21 the United States of America might swell
22 northward over the uncertainly defined
23 border aroused interest in the building of
24 a railway to the Pacific to preserve the vast
25 western territory, then the domain of the
26 Hudson's Bay Company, to the Dominion.
27 The purchase of Alaska by the United States
28 in 1867 and the Northern Pacific Railway
29 project gave the Canadian government cause
30 for anxiety as to the possibility of



1
2 American intervention. On January 28,
3 1870, Sir John A. MacDonald, the Prime
4 Minister of Canada, wrote to C.J. Brydges,
5 Manager of the Grand Trunk Railway, as
6 follows:

7 'It is quite evident to me not only
8 from this conversation, but from advices
9 from Washington, that the United States
10 government are resolved to do all they
11 can short of war to get possession of
12 the western territory, and we must
13 take immediate and vigorous steps to
14 counteract them. One of the first
15 things to be done is to show
16 unmistakably our resolve to build the
17 Pacific Railway....it must be taken
18 up by a body of capitalists and not
19 constructed by the government directly.
20 Canada can promise most liberal grants
21 of land in alternate blocks, and may
22 perhaps (but of this I cannot speak with
23 any confidence) induce Parliament to add
24 a small pecuniary subsidy. No time
25 should be lost in this and I should
26 think that we had made a great stride
27 if we got you to take it up vigorously
28 ...the thing must not be allowed to
29 sleep and I want you to address yourself
30 to it at once and work out a plan.



1
2 Cartier and I will talk it over after
3 conference with you and push it
4 through.' (Correspondence of Sir John
5 Macdonald, by Sir Joseph Pope, Oxford
6 University Press).

7 After acquiring Rupert's land from
8 the Hudson's Bay Company this area, together
9 with the North-Western Territory, was united
10 in 1870 with the Dominion of Canada as the
11 North-West Territories. (Imperial Order in
12 Council 23rd June, 1870). In the same year
13 a small portion of the North-West Territories
14 was constituted the Province of Manitoba.
15 (S.C. 33 Victoria Chap. 3).

16 On July 20, 1871, British Columbia
17 entered Confederation (Imperial Order in
18 Council 16th May, 1871). One clause of
19 the agreement, executed between the Province
20 and the Government of the Dominion of Canada,
21 read:

22 'XI. The Government of the Dominion
23 undertake to secure the commencement
24 simultaneously, within two years from
25 the date of union, of the construction
26 of a railway from the Pacific towards
27 the Rocky Mountains, and from such
28 point as may be selected east of the
29 Rocky Mountains towards the Pacific, to
30 connect the seaboard of British Columbia



1
2 with the railway system of Canada; and
3 further, to secure the completion of
4 such railway within ten years from the
5 date of union.'"

6 In his "A History of Transportation in
7 Canada" (published in 1938 by The Ryerson Press, Toronto)
8 Professor G.P. de T. Glazebrook comments on this point
9 as follows (p.238):

10 "Why the Canadian government undertook
11 this gratuitous obligation is not altogether
12 clear, but a number of explanations may be
13 offered: that the waggon road was an
14 additional and unnecessary expense; that
15 there was fear of an invasion of American
16 railways; or that it was useful for the
17 Canadian government to bind parliament to a
18 task which perhaps could not have been
19 attempted under any other conditions. The
20 terms were accepted by parliament, but not
21 before Alexander Mackenzie, the leader of
22 the opposition, had moved an amendment that
23 Canada should be pledged only to make surveys
24 and to build the railway as finances might
25 allow. The Globe, while reiterating its
26 belief in a Pacific railway, was indignant
27 at the terms: 'We utterly scout the notion
28 that a rash and may be disastrous step should
29 be taken at the dictation of a handful of
30 people 2,500 miles away, and to whom we are



1
2 already making concessions that they may well
3 be satisfied to accept in exchange for union
4' This line of argument was continued
5 in several editorials, but a month later the
6 editor was even more indignant with the New
7 York Albion, which lectured Canadians on the
8 foolish attempt to build their own railway,
9 when they should use the Northern Pacific.
10 The Albion, he said, was probably subsidized
11 by Jay Cooke, and no doubt the Americans
12 wanted to absorb the Canadian west, but
13 Canada would have its own railway. Here the
14 Globe was touching an important point, for
15 there can be little doubt that the building
16 of the Northern Pacific was regarded as a
17 real danger to Canadian power in the west,
18 and was stimulating parliament and people
19 to undertake a herculean task."

20 Canadian Northern and Grand Trunk:

21 During this same general period, private
22 funds were invested in the Canadian Northern Railway
23 from Winnipeg to Edmonton and Pt. Arthur. It was
24 given cash subsidies, guarantees and land grants by the
25 Dominion Parliament, provincial legislatures and
26 municipalities in the areas served.

27 Meanwhile, in 1903, the Grand Trunk Railway
28 sought to become a transcontinental line. It planned
29 to build the Grand Trunk Pacific from Winnipeg to the
30 Pacific Coast and proposed a new service for Eastern



1
2 Canada via the United States from Winnipeg through
3 Chicago. Apparently for strategic reasons, the
4 application for a charter under this plan was refused
5 by the government. Instead the government itself
6 proposed an alternative arrangement which was to permit
7 the construction of the Grand Trunk Pacific from Winnipeg
8 to the West Coast but to connect it with the publicly
9 owned National Transcontinental Line to provide service
10 east from Winnipeg to Moncton, New Brunswick via Quebec.
11 In 1911 another line was added as a government venture -
12 the Hudson Bay Railway.

13 The "Tragedy" of Excess Capacity

14 In reviewing this history the Royal
15 Commission in 1931 described the results as a "tragedy".
16 The Commission observed that in this first decade of the
17 twentieth century, there already existed a Canadian
18 Pacific Railway for transcontinental service. Further,
19 the Canadian Northern Railway had been assisted by the
20 Dominion government to continue west from Edmonton
21 to the Pacific Coast and easterly from Pt. Arthur
22 through Ontario and Quebec. Finally, linking the Grand
23 Trunk Pacific from Winnipeg to the Pacific Coast with
24 the National Transcontinental Railway from Winnipeg east
25 to Moncton and thence via the Inter-Colonial to Halifax
26 resulted in a system of three transcontinental railways.
27 This was considered a tragedy because it was felt that
28 two lines were adequate to meet all of Canada's needs.
29 The conclusion was that the excess represented some
30



1 4,000 miles of unnecessary lines.

2
3 Subsequently, government participation
4 continued. As the result of the outbreak of World War
5 I, the transcontinental lines found themselves in
6 financial straits. Direct loans and guaranty of
7 securities were used by the Dominion government to
8 assist them. By 1917, the financial position of some
9 of the lines was so bad that a Royal Commission was
10 created to look into the problem. It recommended that
11 control of the Canadian Northern, the Grand Trunk
12 and the Grand Trunk Pacific together with the original
13 government lines be transferred to a new government
14 railway system.

15 It can be concluded from the foregoing that
16 the entire size and even location of the present
17 Canadian railway system was heavily influenced by
18 government policy decisions. These decisions were
19 effected by subsidies, loans, guarantees, direct
20 construction and control over charter rights.

21 Excess Competition:

22 One other economic consequence may be noted
23 in this connection. Because so much of the railway
24 system in Canada since 1923 has been owned and operated
25 by a government company, the Canadian National Railways,
26 an unusual competitive situation has developed. A
27 large private corporation, the Canadian Pacific Railway,
28 has faced powerful competition from a company supported
29 by the financial resources of the nation. This is
30 obviously an extremely difficult circumstance. As the



1
2 Duff Commission pointed out in 1931, the reaction of
3 the Canadian Pacific was that it must meet competition
4 in the construction of new lines so as to maintain its
5 relative service position in the new territories being
6 opened up and generally to provide facilities and
7 equipment on a par with that of its powerful rival. The
8 conclusion of the Duff Commission on this point is worthy
9 of note:

10 27. If good sense had prevailed the
11 executive officers of the two systems would,
12 in 1923, have planned together to meet the
13 transportation requirements of the country,
14 and would have refused to promote or permit
15 irrational and wasteful competition.
16 Irrational competition in branch line
17 construction, and in widely varied services,
18 developed and intensified inherently unhealthy
19 operating conditions in the Canadian National
20 Railways, incident to ownership and
21 operation of one unrequired transcontinental
22 line. These conditions, with the unexpected
23 severity of a long period of depression, and
24 consequent reduction in tonnage and passengers
25 available for both railways, have imposed
26 upon the Canadian public, as owners of the
27 National System, capital expenditures and
28 losses of great magnitude, and have caused
29 anxiety and deep concern to the holders of
30 securities of the Canadian Pacific Company. 1/



1
2 The Cost of the Excesses:

3 It will be our purpose in subsequent sections
4 of this analysis to trace the impact of these government
5 and private policies. It may be observed in passing,
6 however, that present costs are greatly affected by any
7 degree of excess capacity. For example, if we accept
8 the figure that some 4,000 miles of unnecessary lines
9 were built by the end of the first decade of this
10 century, staggering sums are involved. Using regression
11 studies made by the Canadian Pacific and Canadian National,
12 we can estimate that the 1958 maintenance of way expenses
13 of the Canadian railway system included over \$6 million
14 of track expenses which were incurred merely because of
15 the existence of these lines, without allowing any
16 costs for handling traffic moving over them.

17 Further, if these lines had average
18 characteristics, they would represent an investment of
19 \$74 thousand per mile using the CPR experience and \$85
20 thousand per mile using the CNR experience. This means
21 a minimum of \$300 million put into property not needed
22 for transportation. Assuming that this facility had
23 been depreciated over the years and today represented
24 a net investment of \$200 million, the figures indicate
25 that the Canadian railways are seeking a return of some
26 \$20 million annually from these un-needed facilities.
27 This is based on the fact that in their cost studies the
28 CPR and CNR use a factor of 6½ per cent as the cost of
29 money which they seek to build into their rate structure.
30 If the average traffic is to produce a 5½ per cent net,



1
2 it must pay over 10 per cent return before income taxes.

3 Thus, \$20 million annually would be required
4 from the freight traffic of the country simply owing to
5 the request for a return on lines built without regard
6 to economic needs. The costs involved would be greater
7 still if consideration were given to the possibility
8 that these excess lines produced excess train-miles
9 and car-miles. On any basis, however, the principle
10 involved is one of major importance and has a sizable
11 impact on the present condition of the Canadian railways.

12
13 CPR Estimates of Excess Capacity:

14 The chief executive officer of the Canadian
15 Pacific was evidently concerned with these issues at the
16 hearings conducted by the Duff Commission. His estimate
17 was that 5,000 miles of line could be eliminated under
18 a unified plan for operation of the CPR and CNR. Along
19 with the savings resulting directly from this change,
20 he envisioned a number of operating economies which
21 would reduce locomotive miles by 12.2 per cent, freight
22 train-miles by 9.2 per cent, and freight car-miles by
23 3.3 per cent.

24 The CPR plan was based on operating condi-
25 tions as of 1930. With the traffic and price levels
26 of that day, it was estimated that railway operating
27 expenses could be cut by over 64 million dollars.
28 Additional savings were projected from the express and
29 telegraph operations.
30



1
2 Assuming that the CPR study was entirely
3 valid and that the percentages of saving calculated
4 at that time would be approximately valid today, we can
5 obtain a rough notion of the possible magnitudes in more
6 current terms. Table IV - 1 shows the figures.
7 Overall, the CPR concept would mean savings of 18 per
8 cent in 1958 operating expenses, amounting to 177
9 million dollars annually.

10 The foregoing is admittedly rough but it is
11 clear that if the 1930 figure of 64 million dollars was
12 valid, the savings today would be much greater.

13 Present Applicability of Prior Conclusions:

14 A key assumption here is the extent of
15 duplicate facilities which might exist today as
16 compared with 1930.

17 Q. Now, may I interrupt you in that
18 remark, Mr. Saunders. You have been calling to the
19 attention of the Commission what you think a very
20 serious problem of this duplicate facilities and
21 excess capacity transportation plan, and I wonder,
22 sir, if you have directed your mind, as apparently
23 some others have, to the point that at the time the
24 Duff Commission made their studies Canada's population
25 was little over one-half of what it is today, and we
26 were in the midst of a serious depression.

27 Do you think that you can safely place
28 the reliance on the findings of the Duff Commission
29 that you apparently have as you refer to in your
30 text here?



1
2 A. Yes, sir. We were much concerned
3 on that question, and we recognize the passage of time
4 may be a factor, but we decided we would look into
5 it, and our research in fact shows the surprising
6 result that the Canadian Pacific today, in recent
7 years, has had more miles of light density lines than
8 it had at the time of the Duff Commission report. I
9 will develop that a little further as we go into
10 this section of the submission.

11 The CPR proposal contemplated elimination
12 of 5,000 miles of line. The Duff Commission concluded
13 that there were 4,000 miles of unnecessary lines. Have
14 conditions changed so drastically since 1930 as to
15 make all of the foregoing irrelevant?

16 We are not in a position to re-do the
17 entire CPR study or the work of the Duff Commission.
18 However, we can illustrate the facts as of a more
19 recent date, using traffic information obtained from
20 the CPR for 1954 and the CNR for 1959.

21 I think I should interpolate here that it
22 is regrettable that the figures for the CPR had to be
23 based on 1954. It was the latest year that they
24 were able to make available to us; whereas the Canadian
25 National was able to give us the recent figures for
26 1959, which are clearly better because they are
27 more up-to-date.

28 COMMISSIONER MANN: Mr. Saunders, did you
29 have access to a 1954 Canadian National density study?

30 THE WITNESS: We did not inquire about it,



1
2 and if there is one I am not aware of it, sir.

3 COMMISSIONER MANN: I just wondered whether
4 some of the conclusions could be drawn by looking at
5 the Canadian National pattern as between 1954 and 1959,
6 and then assuming that Canadian Pacific might have had
7 a similar trend ---

8 MR. SINCLAIR: That is quite an assumption,
9 Mr. Commissioner.

10 COMMISSIONER MANN: I beg your pardon?

11 MR. SINCLAIR: That is quite an assumption.

12 COMMISSIONER MANN: Well, so I understand.
13 I realize that.

14 THE WITNESS: We tried to do a little
15 analysis for that very point because it is natural
16 that 1954 and 1959 are different, and we do not want
17 to draw conclusions loosely. What we have done has
18 been to analyze the relative traffic as a whole per
19 mile of road on the two railroads for the whole series
20 of years before and after 1954. And generally the
21 pattern on the Canadian Pacific is about 10 per cent
22 higher volume in terms of density per ton per mile
23 on road today than it was in 1954. Canadian National
24 has increased relatively less. It is only a few
25 percentage points bigger in 1959 than in 1954. There
26 is this recognized limitation about the comparability,
27 but I believe I have no hesitation in saying that I am
28 satisfied that the general results we are about to
29 discuss are entirely valid and could not really be
30 significantly changed by another study. I wish it had



1
2 been done in 1959, as a matter of fact, and I believe
3 Canadian Pacific should have done it, as a matter of
4 fact. But that is an unnecessary comment.

5 MR. SINCLAIR: It certainly is.

6 THE WITNESS: These data were analyzed
7 line by line to determine the areas of high and
8 low traffic density. The results are shown in
9 a series of four maps inserted at the end of this
10 volume.

11 MR. MacKIMMIE: Now, Mr. Secretary,
12 I take it these cannot be reproduced in the record
13 and since Mr. Saunders will be discussing all four
14 I wonder if they could have consecutive numbers as
15 exhibits.

16 --- Exhibit No. 156: Map A - Eastern Canada:
17 Effect of competitive
18 building on light density
19 lines.

20 Exhibit No. 157: Map B - Western Canada:
21 Effect of Competitive
22 Building on Light Density
23 Lines.

24 Exhibit No. 158: Map C - Eastern Canada:
25 Effect of competitive
26 building on heavy density
27 lines.

28 Exhibit No. 159: Map D - Western Canada:
29 Effect of competitive
30 building on heavy density
lines.

MR. MacKIMMIE Q: Now, Mr. Saunders,
you were discussing the text, I believe, on ---

A. I think before I do that, I would
like to explain how the maps are developed and what



1 they represent.

2
3 These maps are tracings of some maps which
4 are called a shipper's guide which contain the
5 details of every line of the railways and include
6 the mileage between each pair of stations and from
7 large maps, roughly three feet wide for each section
8 of the country, what we did was make a tracing of
9 those basic maps and then mark every segment of the
10 line on each railroad in accordance with a system
11 of codes that we devised based on our analysis of
12 this traffic density information that I described just
13 a moment ago.

14 Specifically what that means is that we
15 analyse each pair of points given in the density
16 study as representing points between which trains
17 moved and for which records are kept on the tonnage
18 passing over that line; and for each such point we
19 developed the total ton miles per mile of road. Then,
20 we divided all the numbers into four categories. We
21 took those that were, in the case of the Canadian
22 Pacific, those that were less than 250,000 revenue
23 ton miles per mile of road, and we called those the
24 light density lines. We took the next bracket and
25 we gave those a code of one, let us say, and we took
26 the next bracket of sections of line that had 250
27 to 500 thousand ton miles per mile and we gave that
28 code 2 and code 3, say, 500 to a million; and a million
29 and over was code 4.

30 Now, with that we marked every segment of



1
2 the line and had the shadings produced so that in map
3 A we could put into bold relief by a screening
4 process the lighter density lines; and, if you like,
5 on map A you will see there are what we call box
6 cars illustrating the location of the light density
7 lines. And if it is in blue it is the Canadian
8 National light density line, and if it is in red, a
9 red boxcar is a light density line on the Canadian
10 Pacific.

11 Q. Now, we are talking about Exhibit
12 No. 156?

13 A. Yes, Exhibit 156.

14 Now, in the case of the Canadian National
15 we had a 1959 study in which we were looking at
16 gross ton miles rather than revenue ton miles. In
17 order to make the comparison, we had to inject some
18 general knowledge, and that is that a gross ton mile
19 is, roughly the same as two net ton miles.

20 Now, this is a technical point and an
21 extremely important one, and I would like to take time
22 to explain it. A gross ton mile, as used in this
23 study, and as used for cost purposes generally, is
24 a measure of the work done by the locomotive and the
25 measure of the wear on the track, and it essentially
26 is the best single unit of the physical result of
27 a railway operation, because the job of a railway is
28 moving freight and to move the freight behind a
29 locomotive in a train, and the end result of your work
30 is this measured gross ton mile as behind that



1 locomotive. It means the weight of the car, the weight
2 of the lading and necessarily the handling of an
3 empty car a certain amount of the time because not all
4 trains can handle only loaded cars. So, the work done
5 by the railroad requires the handling of the tare
6 weight of the car loaded or empty, and the lading.
7

8 Now, the railroad is in business to move
9 the revenue producing freight in that ton miles in the
10 car, and those are extremely important numbers to
11 look at, but from the standpoint of work done we
12 are interested in the gross ton miles of the work you
13 have to do in order to get the net benefits from
14 traffic and roughly that figure is about two to one.
15 You have to move about two tons of material to move a
16 ton of freight and so when we make this comparison
17 between the Canadian National and the Canadian Pacific
18 we used a scale of codes -- one through four -- in
19 which the brackets for the Canadian National are just
20 double the brackets for the Canadian Pacific. And
21 thus the ^{light} density line on the Canadian National is a
22 line with less than 500,000 gross ton miles per mile,
23 whereas a light density line on the Canadian Pacific
24 is a line with less than 250,000 net ton miles per
25 mile. That is explained on the map, but I think
26 it might get by because it is in fine print and
27 rather technical. This becomes extremely important
28 in some of our subsequent material.

29 Q. So we are all clear, Exhibit No. 156
30 has in the bold markings merely the light density and



1 medium density lines on both railroads; one in red,
2 the other in blue?

3 A. That is right. And the paler washed
4 red lines and blue lines are the heavier density line --
5 what we called Codes 3 and 4 -- and in effect it is
6 roughly all lines that are over a million ton miles
7 per mile of line. And those essentially are the
8 main lines, and the lighter lines are essentially
9 branch lines. But it is not entirely that, because
10 as you will see some of the main lines -- what we
11 think of as main line railroad -- are actually fairly
12 little used.

13 COMMISSIONER MANN: There again the same
14 formula would be used? For instance, your high
15 density lines would be over 500,000 net ton miles of
16 Canadian Pacific?

17 THE WITNESS: That is right.

18 COMMISSIONER MANN: And over one million
19 gross ton miles of Canadian National?

20 THE WITNESS: That is right, yes.

21 COMMISSIONER MANN: Thank you.

22 THE WITNESS: Now, I would like to dwell
23 a moment on map A, Exhibit No. 156, in order to
24 explain just what the significance of this exhaustive
25 study was.

26 You can see, if you look at boxcars --
27 first, just look at Exhibit 156 in terms of red box-
28 cars and blue boxcars and visualize them in the areas
29 where they are near each other. You will see that in
30



eastern Canada there are many, many sections where you have the red boxcars and the blue boxcars side by side, and criss-crossing over each other mile after mile.

Table IV - I

Projection of Estimated Economies from United
Operation of CPR and CNR

(Based on CPR Proposals to the Duff Commission)

	Operating Expenses 1958			Estimated Savings	
	CPR (thousands of dollars)	CNR	Total	Per 1/ cent	Amount (\$Million)
1. Maintenance of way and structures	83,602	135,860	218,462	20	44
2. Maintenance of Equipment	97,430	137,658	235,088	18	42
3. Transportation	168,781	230,658	399,439	13	52
4. Traffic	12,082	13,323	25,405	30	8
5. Miscellaneous	8,625	5,610	14,235	22	3
6. General	<u>34,025</u>	<u>53,503</u>	<u>87,528</u>	<u>32</u>	<u>28</u>
7. Total	404,545	575,612	980,157	18	177

1/ The percentages of savings are those reflected in the 1930 study of CPR. Each account was analyzed at that time and the savings were calculated in dollar amounts which were then related to the actual combined expenses of CPR and CNR in 1930. The assumption in this table, therefore, is that the percentages developed as of 1930 give a rough indication of the magnitudes which would be produced if a similar detailed study were made in 1958.



1
2 You will also see that there are many other
3 places where the circles which indicate medium density
4 lines also run side by side and cross back and forth
5 over each other on the red and the blue, meaning the
6 C.N.R. and the C.P.R.

7 MR. SINCLAIR: Just for clarification, may
8 I ask a question? May I ask what is the scale on the
9 map?

10 THE WITNESS: Exhibit 156 is based on a
11 scale of one inch equal to about approximately 43 miles;
12 in other words, that is eastern Canada, and that means
13 that Exhibits 156 and 158 are approximately 43 miles.
14 I say "approximately" because in order to draw this
15 map with an engraving process you could not actually
16 make it literal and exactly so and still get the lines
17 visible and legible. So, there is a certain amount
18 of approximation here. It is not actually a photo-
19 grametric type of map at all, and it is not intended to
20 be that. It is more intended to illustrate the
21 fundamental results rather than the geographic detail.

22 Exhibits 157 and 159 which deals with Western
23 Canada are on a scale of one inch to approximately 70
24 miles.

25 MR. MacKIMMIE: Have you any further discussion
26 on Exhibit 156?

27 A. I think that speaks for Exhibit 156.

28 COMMISSIONER BALCH: Looking at Exhibit 156,
29 would you look at the Canadian National -- the medium
30 density -- and we find a spot that looks as though it



1
2 is right up in the bush. I don't know where it is,
3 but there is a good bit of traffic. Is it just that spot
4 up there? Do you see the shaded blue line?

5 THE WITNESS: You are taking about the line
6 coming east from Lake Nipigon?

7 COMMISSIONER BALCH: Yes.

8 THE WITNESS: Yes, there is some heavy density,
9 and that it runs into light density and then medium.

10 COMMISSIONER BALCH: What would account for
11 that in that section?

12 THE WITNESS: I don't know what the traffic
13 is, but it would suggest the flow is eastbound predominant-
14 ly because it builds up from that junction in the upper
15 left hand corner of the map. The boxcars appear, and
16 then the circles, which mean a little heavier density,
17 and then the gray. So there is something accumulating.
18 It could be that if we had all the railways other than
19 the Canadian National and Canadian Pacific it may be a
20 junction there that some other line has that adds
21 traffic to the Canadian National, but since we are only
22 looking at the data for these two roads it does perhaps
23 look out of focus, as it were. Unfortunately, my
24 detailed maps do not give the other railways either.

25 MR. SINCLAIR: I think, Mr. Commissioner Balch,
26 there is a large paper development where the heavy density
27 is flowing both ways -- Kapuskasing.

28 THE WITNESS: The Ontario Northland comes down
29 through part of that territory at Cochrane. At the
30 east end of the heavy density section -- in other words,



1
2 the boxcars, and then the circles, and then the solid
3 line, and then the Ontario Northland comes in.

4 COMMISSIONER BALCH: Oh, that is right, coming
5 down -- Sault Ste. Marie.

6 THE WITNESS: Yes, I think that would explain
7 that. On Exhibit 157 we have a similar showing with
8 respect to the west, and you will see again, if you
9 look first for boxcars red and boxcars blue, and get the
10 feeling of this map in terms of boxcars, you will see
11 the great extent to which there are parallel light density
12 lines in the territory. There are some sections where
13 you find red and blue boxcars mixed together on a line.
14 You will notice that in the centre of the map north and
15 west of Saskatoon, or west and south of Prince Alberta,
16 where we have joint trackage, and we have taken the
17 composite traffic of both roads in order to produce
18 this showing. Again it is quite clear that there are
19 many, many miles of track which are extremely lightly
20 used on both railways and, as I said earlier, these
21 are for the recent period and not for the time of the Duff
22 Commission.

23 I believe I have a slight correction to make
24 in this map: I don't know how to describe it to you,
25 gentlemen. But, coming out of Winnipeg towards the
26 east you will see some boxcars and, starting off at about
27 two o'clock -- in that general direction -- and heading
28 up in a northeasterly direction, and they cross a heavy
29 density line about halfway out. Actually, the marking
30 on that is erroneous because the boxcar line is really



1
2 the line which runs in the inverted "V", but there is
3 a line that runs in a northeastern direction and then
4 turns sharply back south out of Winnipeg in red. It
5 heads towards Port Arthur. That red solid line should
6 be reversed with the boxcars.

7 COMMISSIONER BALCH: That is the shaded red?

8 THE WITNESS: Yes, the shaded red and the
9 boxcars should be reversed.

10 MR. SINCLAIR: In other words, the main line
11 is heavy density?

12 THE WITNESS: Yes, the main line is heavy
13 density, and it was just reversed in the drawing.

14 THE CHAIRMAN: We will adjourn now until
15 two o'clock.

16
17 ---Luncheon adjournment.
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---On resuming at 2.00 p.m.

THE CHAIRMAN: Order. Mr. MacKimmie?

MR. MacKIMMIE: Thank you, Mr. Chairman.

Q. I believe you were discussing at the time of adjournment Exhibit 157, Mr. Saunders?

A. Yes, sir. I was about to conclude that on Exhibit 157 one could find first by looking at the boxcars tremendous areas of parallel or adjacent facilities on the Canadian National and Canadian Pacific, each with very little traffic. Likewise, if we concentrate on the circles that represent the medium density lines, similar observations can be made; and it is quite clear that if the facilities had been planned in any overall sense or in any joint sense -- and, of course, we recognize that hindsight is better than foresight -- had they been planned in any integrated way, the lines that carry half a million tons would in the million category and we will see that that has a tremendous bearing on the revenue needs of the railways.

If we turn to Exhibits 158 and 159, we are dealing with essentially the same facilities; it is the same map. But here I have rescreened the maps in order to highlight another side of the picture, and we are now emphasizing in bold colour the heavy density lines which are essentially main lines of these railways which are technically heavy density areas.

If you look at Exhibit 158 for Eastern Canada again you will find important sections, many miles of railways, which serve essentially the same areas.



1
2 It is not quite as widely diffused competition as it
3 is in the case of the light density lines, but it does
4 represent important total mileage and important total
5 traffic.

6 MR. SINCLAIR: Could you give us an example,
7 please?

8 THE WITNESS: Yes. One could start from the
9 left, Port Arthur, Fort William area into the Georgian
10 Bay area. You have two heavy density lines which
11 run roughly parallel with one another, and then they
12 parallel very closely the pair of lines down to Toronto
13 and another pair of lines that run more directly east-
14 ward through Pembroke, which, had this been a single
15 company, for example, would not have been built in
16 that way, and if we were integrating or rationalizing
17 the railway system today we would not build railways
18 in that parallel form. You can carry on through the
19 east into Quebec. When you get east of Sherbrooke
20 the competitive situation isn't so clear, but west
21 of Quebec there are many areas where the railways run
22 roughly side by side within fifty miles or so and gener-
23 ally serve the same important industrial centres.

24 COMMISSIONER GOBEL: Don't you have similar
25 conditions in the United States where the railways
26 compete for the same market?

27 THE WITNESS: Yes, we certainly do. In
28 fact, in some areas we have more lines on the map; but
29 there we have several separate companies. In the
30 United States we have companies which were essentially,



1
2 particularly in the east, independent, independent
3 managements made individual decisions, whereas in
4 Canada we have two companies and a government
5 climate which was quite different in the United States,
6 a government climate in which active interest and,
7 indeed, participation was the keynote, and yet with
8 that atmosphere we still have the extensive provision
9 of railway facilities between principal centres.

10 MR. MacKIMMIE: Q. Just on that point, Mr.
11 Saunders. Commissioner Gobeil has asked you if the
12 same condition didn't exist in the United States of
13 competing for the same traffic or same markets. What
14 happens in the fact that there are two companies? You
15 are saying it wouldn't have been designed this way.
16 Was that your point, sir?

17 COMMISSIONER GOBEIL: Yes.

18 THE WITNESS: I am afraid I didn't catch
19 your comment.

20 MR. MacKIMMIE: Q. You were telling the
21 Commissioner, sir, that there was a duplication of parallel
22 lines on Exhibit 158. You were saying that hindsight
23 is better than foresight, and Commissioner Gobeil is
24 saying doesn't the same thing happen in the United States,
25 and you commented it does. I ask you now: if it is
26 proper in the United States, why isn't it proper here?

27 A. I don't think it is proper anywhere. If
28 we are talking about the effects of these extra facilities
29 on the present cost and revenue needs, it is clear
30 that if we have excess capacity ---



1
2 Q. In other words, two wrongs do not make
3 a right?

4 A. Yes.

5 COMMISSIONER GOBEIL: You don't want to
6 come to the conclusion that there be only one railway?

7 THE WITNESS: I think that is a different
8 question. I don't urge that there be only one railway,
9 but I do say that government policy is intimately
10 bound up in what is happening to these two railways,
11 and it seems to me it is necessary for government to
12 carry through to find a solution. The question of
13 this extra capacity that we have is partly the result
14 of government decisions.

15 THE CHAIRMAN: They are trying to cure the
16 situation there by merger.

17 THE WITNESS: In the United States?

18 THE CHAIRMAN: Yes.

19 THE WITNESS: Yes, that has been a very
20 important factor.

21 THE CHAIRMAN: The small ones?

22 THE WITNESS: Yes.

23 MR. SINCLAIR: They are making certain, Mr.
24 Chairman, that they do not lessen competition and they
25 are not merging all their railways between two
26 centres.

27 THE WITNESS: I think there is a difference
28 between saying merge them into one property and
29 eliminate competition.

30 COMMISSIONER ANSCOMB: You can't eliminate



1
2 competition; there is no monopoly of railway any more;

3 THE WITNESS: Yes; but I would distinguish
4 between competition and monopoly not as two opposite
5 poles. If there is only one railway system in Canada,
6 for example, it is true that there would still be
7 competition for traffic by that railway as against
8 other forms of transportation. But that doesn't
9 necessarily make it a desirable objective in and of it-
10 self, because there is some advantage in having separate
11 yardsticks, if you will, one railway versus another.

12 COMMISSIONER BALCH: They are merging
13 separate properties on the other side, as you know.
14 Do you think it is possible that they will cut out
15 some of the parallel lines, or is the traffic dense enough

16 THE WITNESS: I think that is a very difficult
17 question to answer generally. There are some areas, I
18 am sure, where there will be elimination of lines.
19 There are other areas where the result may be a joint use
20 of two lines. Let us say we have two single track
21 pieces of railway or maybe we have a total of three.
22 We might find in certain conditions the one management
23 will tear up one track. I would not expect a major
24 reduction in railway miles.

25 COMMISSIONER ANSCOMB: Not under any cure you
26 might suggest?

27 THE WITNESS: In Canada?

28 COMMISSIONER ANSCOMB: Yes.

29 THE WITNESS: I was addressing myself to the
30 question in the United States, these mergers in the



1
2 United States. I think the situation in Canada is
3 different.

4 COMMISSIONER MANN: From your background in
5 the United States in railway operations, do you perceive
6 a tendency to develop by merger say four or five
7 regional networks in the United States?

8 THE WITNESS: I don't know how many, but there
9 certainly has been a tendency to develop regionally.

10 COMMISSIONER MANN: Do you have a record of
11 the rail mileage abandoned since, say, 1920 in the
12 United States?

13 THE WITNESS: We don't have it with us. I am
14 sure it can be supplied. Would you like us to do that?

15 COMMISSIONER MANN: Yes, if you would.

16 THE WITNESS: Since about 1920?

17 COMMISSIONER MANN: Yes, or about that period.

18 THE WITNESS: Now, Exhibit 159 is like Exhibit
19 158 in that it highlights the heavy density lines, and
20 again one can see that there are some areas, particularly
21 in the central part of the map, where the red and blue
22 heavy density lines run essentially parallel and serve
23 essentially the same territories.

24 Exhibits 156 and 157 show the relationship of
25 light density lines on the CPR and CNR in Eastern and
26 Western Canada. In all areas, there is a clear
27 showing that the duplicate mileage described by the
28 Duff Commission still exists. There are many miles
29 of lightly used track located fairly close together
30 in all sections of Canada.



1
2 Exhibits 158 and 159 show the same
3 information but highlight the location of lines with
4 heavier traffic densities. They dramatize the fact
5 that the problem of "over expansion" is not merely
6 a matter of branch line feeders. Many miles of
7 main lines are directly competitive with each other.

8 Hindsight on History:

9 The maps dramatize the fact that Canada has
10 more railway mileage than it needs. Yet these lines
11 were built, in considerable measure, with the encourage-
12 ment of government. Once the lines were built, popu-
13 lation and industry moved out to areas not otherwise
14 so suited for settlement. Thus, today, Canada has
15 a physical pattern of population and industry which
16 has been shaped by the decisions of earlier govern-
17 ment and railway leaders.

18 Viewed from today's vantage point, Canada
19 has too much railroad. But what shall present-day
20 government and railway leaders do about it? If we
21 were starting over again, with a strict economic
22 yardstick, many miles of line would not be built.
23 Traffic would be channeled over relatively fewer
24 main routes and industries would tend to locate
25 along them. Yet, surely no one will propose that
26 industries and communities be relocated.

27 At the same time, excess capacity does have
28 present economic consequences. In subsequent chapters
29 we shall put some magnitudes on the policy issues.
30 Canada must decide for the future whether and how it



wishes to bear the cost of earlier policy decisions.

Q. Now, Mr. Saunders, we move to Chapter V entitled "Economics of Canadian Lines."

A. The foregoing section has discussed the important role of government. We shall now consider the nature of the Canadian railroads in terms of their general traffic and cost structure and the resulting revenue need. A simple way to do this is to compare some important overall yardsticks for the Canadian lines with those of the principal railroads in the United States. Aggregates are shown in Table V - 1 and significant ratios are given in Table V - 2

Importance of Density:

The key fact about Canada's railroads is reflected in the traffic density. The volume of traffic handled per mile of road is a measure of the use to which the facilities are put. The railroad industry has a substantial portion of costs fixed regardless of traffic. This means that the more traffic is added, up to the point of capacity, the lower the cost per unit. Since traffic on most large railroads in North America is well under the capacity level, a road with more traffic will generally do better than a road with less traffic -- essentially because of this fundamental economic principle.

Looking at freight gross ton-miles per mile of road (Table V -2) we find that the Canadian Pacific has an average traffic density of about 3.5 million per year, whereas the Canadian National averages



1
2 somewhat less -- 3.1 million. In contrast, the Class I
3 railroads in the United States average 5.7 million freight
4 gross ton-miles per mile of road. In short, roadway
5 utilization in the United States is roughly seventy
6 per cent higher than in Canada. (These figures measure
7 the work done including the weight of the loaded and
8 empty cars. They differ from the comparisons in
9 Chapter III which deal with the weight of the goods
10 hauled -- the revenue freight.)
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Table V - 1

Comparison of Canadian and U.S. Railroads

Selected Statistics, 1958

	CPR	CNR	U.S. class 1 Railroads
1. Miles of road, average for year*	17,096	23,262	221,702
2. Freight GTM(000)	59,306,027	72,476,590	1,268,568,937
3. Freight revenue (Acct.101) (000)	\$393,823	\$481,895	\$8,070,826
4. Freight train- miles	27,907,570	34,018,408	400,420,456
5. Passenger miles (000)	1,149,159	1,171,487	23,268,841
6. Passenger train- revenue (Accts. 102-109)(000)	\$55,991	\$62,237	\$1,180,577
7. Passenger train- miles	16,235,447	21,404,229	246,402,252
8. Total operating expenses (000)	\$403,261	\$567,661	\$7,911,966
<u>Gross Investment (\$000)</u>			
9. Miles of road, end of year*	16,662	23,121	209,529
10. Road property	\$1,265,184	\$1,992,699	\$21,674,595
11. Freight cars	480,664	624,190	8,492,380
12. Passenger cars	143,566	187,122	1,371,177
13. Locomotives	237,770	385,461	4,168,759

* Average for year is mileage operated, including duplications arising from trackage rights, and joint ownership or control, whereas end of year is mileage controlled, excluding such duplications.



TABLE V - 2

Comparison of Canadian and U.S. Railroads

Selected Statistics, 1958

Per Mile of Road

(Aggregates on Table V, part 1)

	<u>CPR</u>	<u>CNR</u>	<u>U.S. Class</u> <u>1 Railrds.</u>	<u>Ratio US to</u> <u>CPR</u>	<u>CNR</u>
1. Miles of road (Table V-1, L.1)					
2. Freight GTM (000)	3,469	3,120	5,722	1.65	1.83
3. Freight revenue (Acct. 101) (000)	\$23.0	\$20.7	\$36.4	1.58	1.76
4. Freight train- miles	1,632	1,462	1,806	1.11	1.24
5. Passenger miles (000)	67.2	50.4	105.0	1.56	2.08
6. Passenger train revenue (Accts. 102-109) (000)	\$ 3.3	\$ 2.7	\$ 5.3	1.61	1.96
7. Passenger train miles	950	920	1,111	1.17	1.21
8. Total operating expenses (000)	\$23.6	\$24.4	\$35.7	1.51	1.46
9. Average weight of freight train (Table V-1, L.2 & L.4)	2,125	2,133	3,168	1.49	1.49

Gross Investment, close of year (\$000)

10. Miles of road (Table V-1, L.9)					
11. Road property	\$75.9	\$86.2	\$103.4	1.36	1.20
12. Freight cars	28.8	27.0	40.5	1.41	1.50
13. Passenger cars	8.6	8.1	6.5	.76	.80
14. Locomotives	14.3	16.7	19.9	1.39	1.19



1
2 It is interesting that the annual revenue
3 per mile shows about the same spread. The Canadian
4 Pacific receives \$23,000 of freight revenue per mile
5 of road while the Canadian National receives \$21,000
6 per mile -- the two roads being quite close. The
7 U.S. railroads average over \$36,000 per mile -- 60
8 or 70 per cent more than the Canadian lines.

9 Train Characteristics:

10 The U.S. lines handle more traffic per
11 mile of road but it is interesting and instructive
12 to determine how this is accomplished. The freight
13 train miles per mile of road provide a measure of the
14 relative train service or train frequency. The
15 Canadian Pacific and the Canadian National provide
16 annually about 1500 to 1600 freight train miles per
17 mile of road. The U.S. lines average some 1800
18 freight train miles per mile of road. Thus, there is
19 somewhat more freight service on the average railroad
20 in the U.S. than there is in Canada. For rough
21 purposes, this may be visualized as the equivalent of
22 about five freight trains per day on a typical section
23 of line in Canada as compared with about six trains
24 per day in the United States. It will be observed,
25 however, that the extra traffic handled over a mile
26 in the United States is much greater than the difference
27 in train service. This is but another way of saying
28 that the size of the trains in the United States is
29 considerably greater. In fact, the average train on
30 the Canadian Pacific and the Canadian National is only



1
2 about 2100 tons. This may be compared with an
3 average train in the United States which hauls
4 some 3200 tons, one-half more than the Canadian lines.

5 Thus, we can see that with respect to
6 freight traffic, the U.S. lines provide slightly
7 more train service but handle a great deal more
8 traffic than the Canadian lines. As a result, the
9 cost of train service per ton-mile would be materially
10 less in the U.S. than in Canada. This difference
11 in traffic density is of the utmost importance in
12 explaining the economics of Canada's railroads --
13 as will be developed hereinafter.

14 Passenger Service:

15 Referring to passenger service, the
16 Canadian lines each provide about the same volume of
17 passenger service, but the CNR handles a lower volume
18 of traffic in passengers and receives less revenue per
19 unit of roadway. Again, as with freight, the use
20 factor is greater on the U.S. lines. As shown by
21 Tables V - 1 and V - 2, U.S. lines give about 20
22 per cent more passenger train service but enjoy 50 to
23 100 per cent more traffic in passengers, and derive
24 60 to 90 per cent more revenue to spread over the costs
25 of their roadway.

26 I think it might be well to interpolate
27 here that a partial explanation for this lies in the
28 different role of commutation traffic in the two
29 countries. We do not have available to us details on
30 commutation service in Canada and I believe that is



1
2 regrettable, but we know that in the United States
3 in terms of number of passengers possibly well over
4 one-half of the actual passengers are in the
5 commutation service. They are short haul, frequent
6 trips.

7 THE CHAIRMAN: New York and so on?

8 THE WITNESS: New York comes to mind, but
9 it affects a great many railroads in Chicago, St. Louis,
10 Boston and elsewhere in the country, in the west.

11 Relative Investment:

12 There are, of course, differences in the
13 value of the dollar and other factors in the two
14 countries. Nevertheless, it is interesting to see
15 how much money it takes to provide basic railroad
16 facilities. Again, as shown in Tables V - 1 and V - 2,
17 striking economic principles emerge. As might have
18 been expected, the investment in road property in the
19 U.S. is significantly higher than in Canada. Perhaps
20 because they were built to handle a greater volume of
21 traffic, the U.S. roads have invested about \$100 thousand
22 per mile of road, which is about one-fifth to one-
23 third higher than the \$75 thousand to \$85 thousand of
24 the CPR and CNR. However, this difference in level of
25 roadway investment is by no means as great as the
26 difference in freight traffic handled. Therefore, the
27 same percentage of revenue carried down to net income
28 would represent a greater return on roadway
29 investment in the U.S. than in Canada. Stated
30 differently, the earnings of the Canadian lines would be



1 greater than they were in 1958 if they could achieve
2 the average density of the U.S. roads.

3
4 United States requirements of \$40 thousand
5 per mile of road for freight cars are forty to fifty
6 per cent higher than those of the CPR and CNR at \$27
7 thousand and \$29 thousand. This suggests a more
8 favourable investment in cars per unit of traffic
9 in the U.S. However, the number of freight cars
10 in service per mile of line in the U.S. is double
11 the Canadian experience. The more favourable U.S.
12 investment thus probably reflects differences in the
13 cost of the different types of freight car, and in their
14 relative importance in the car fleets of the two
15 railway systems.

16 MR. SINCLAIR: Pardon me. I hope Mr.
17 MacKimmie does not object to this?

18 MR. MacKIMMIE: Not at all, Mr. Sinclair.

19 MR. SINCLAIR: I was wondering if you
20 include in freight cars, U.S., rented fleets or if this
21 is just owned fleets ?

22 THE WITNESS: This includes all the cars
23 used. In other words, it's the private cars as well
24 as the railroad owned cars together in this U.S.
25 total.

26 MR. SINCLAIR: This U.S. total includes all
27 the reefer cars?

28 THE WITNESS: And the tank cars.

29 MR. SINCLAIR: And the tank?

30 THE WITNESS: Yes, sir.



1
2 COMMISSIONER MANN: Do you have leased cars
3 and private cars in the Canadian total as well?

4 THE WITNESS: I think we used the figures
5 that come from the reports of the Canadian Pacific
6 Railway and the Canadian National Railway and they
7 would not include any outside leased equipment. I
8 do not believe there is very much of it, but to the
9 extent they are outside those reports we do not have
10 them.

11 MR. SINCLAIR: Are they adjusted per
12 diem or for line cars for total inventory?

13 THE WITNESS: No, this is ownership. This
14 has nothing to do with per diem. This is number of
15 cars in which the railroads have put capital funds.

16 MR. SINCLAIR: Irrespective of whether
17 they were used on the lines?

18 THE WITNESS: That's right.

19 COMMISSIONER MANN: These could be checked
20 against the equipment registry; could they not?

21 THE WITNESS: I am not sure that would be
22 the most convenient way to check them, but they could
23 be checked against the DBS reports for total facilities.
24 You are referring to the Canadian figures?

25 COMMISSIONER MANN: No, I meant the American
26 figure.

27 THE WITNESS: The U.S. figures would better
28 be checked in the ICC blue book, so called, Statistics
29 on Railways in the United States. You can get the
30 private and the railroad separately shown there.



1
2 Turning to the passenger cars, there is
3 a somewhat different picture. The Canadian lines
4 have invested about \$8 thousand per mile of road
5 in passenger cars whereas the U.S. roads have less
6 than \$7 thousand per mile. However, analysis of the
7 number of passenger train cars in service shows the
8 Canadian lines owning one car for every seven miles
9 of road, the same as the figure for the United States.

10 And this, too, I should add, does include
11 all cars, the sleeping cars and so forth, which are
12 operated by the Pullman Company of the United States.
13 Those are included in the U.S. figure as well as
14 those actually owned by the railways.

15 As to locomotives we find that the Canadian
16 lines have put some \$14 thousand to \$17 thousand into
17 locomotives to protect the average mile of road
18 served. The investment of locomotives in the United
19 States is about \$20 thousand but this is to be
20 expected when consideration is given to the fact that
21 more traffic and more trains are operated. In fact,
22 when we look at the investment in locomotives per
23 train-mile, we find that the United States experience
24 of \$6.50 falls in between the \$7.00 and \$5.50 of the
25 Canadian Lines. That is to say of the Canadian
26 National and the Canadian Pacific. Again, because
27 there is more traffic, the burden of meeting any given
28 rate of return on locomotives would be less for a
29 ton of freight in the United States than in Canada.
30



1
2 Relative Expenses:

3 The net effect of all of the difference in
4 utilization of a fairly similar plant is shown in the
5 total operating expenses per mile of road. It is
6 significant that both the Canadian Pacific and the
7 Canadian National spend about \$24 thousand per mile of
8 road. The U.S. railroads spend about \$36 thousand
9 per mile -- 50 per cent more. In part this is
10 because of differences in wages and other operating
11 factors. The important conclusion from this, however,
12 is that expenses in the United States are about 50
13 per cent higher than in Canada while revenue is 70
14 per cent higher per mile of road served. This is
15 important because it shows so clearly the value of
16 traffic. Costs do not go up in proportion to changes
17 in traffic. Revenues do.

18 The significance of the foregoing can also
19 be expressed in terms of unit costs. A line which
20 has light traffic will have high costs per unit of
21 traffic whereas a line with heavy traffic will have low
22 costs per unit of traffic. Other things being
23 equal, a line with light traffic will have low
24 earnings and a low return on investment but a line with
25 high traffic will have high earnings.

26 Average vs. Peak Density:

27 The foregoing comparisons reflect average
28 utilization on U.S. railroads as a whole. But the
29 capacity of a railroad is much greater than the broad
30 figure of 3.5 million gross ton-miles per mile of road.



1
2 The Atchison, Topeka & Santa Fe is a large western
3 railroad with many qualities like those of the Canadian
4 lines. As shown in Table V - 3, its system average
5 traffic density is 6.8 million gross ton-miles per
6 mile -- including main lines and branch lines. The
7 Southern Pacific average is 9.4 million and that of
8 the Union Pacific 8.2 million. Thus, the composite
9 density of some large railroads traversing mountain
10 and prairie territory like the Canadian lines is 2 to 3
11 times as great as in Canada.

12 MR. SINCLAIR: So that I may be together,
13 do you have the Burlington figures there?

14 THE WITNESS: Not handy is the answer.
15 Would you like us to supply that, Mr. Sinclair?

16 MR. SINCLAIR: Yes, I would like to see
17 them.

18 THE WITNESS: We'll make a note of that.

19 MR. SINCLAIR: It could be filed tomorrow.

20 THE WITNESS: I do not know whether I
21 can file it tomorrow. They are standard statistics,
22 but we did not bring all the individual railroad
23 documents with us.

24 MR. MacKIMMIE: Q: For my edification
25 alone, what is the Burlington, or, does it serve the
26 same area?

27 A. It is a western railroad and it is
28 a large railroad. It has a somewhat lower density
29 than these large railroads just mentioned.

30 MR. MacKIMMIE: We will try to get that,



Mr. Sinclair.

Table V - 3

Traffic Characteristics of Large U.S.
Western Railroads, 1958

	<u>ATSF</u>	<u>SP</u>	<u>UP</u>
1. Miles of road (average for year)	13,110	8,087	9,750
2. Freight GTM per mile of road (000)	6,818	9,402	8,155
3. Freight train-miles per mile of road	2,027	2,909	2,526
4. Average weight of train (tons)	3,364	3,231	3,228

But all these lines have large amounts of branch line operation. Main lines can handle much greater volumes. In 1953, the Illinois Central commented that its freight traffic averaged 13.5 million net ton-miles per mile of road between Gilman and Chicago. This would be the equivalent of some 27 million gross ton-miles.

As early as 1940, the Pennsylvania Railroad had the following traffic load on important segments of line.

	<u>Millions of GTM per Mile of Running Track</u>
Columbia-Schocks	99.7 (freight only)
Fallingston-Thorndale	42.1 (freight only)
Altoona-Cresson	138.5 (freight and passenger)
Landover-Potomac Yard	67.2 (freight only)
Perryville-Creswell	45.3 (freight only)

The above figures may include the weight of locomotives



1
2 and tenders, but even allowing for this possibility,
3 the densities are 20 times and more the average on the
4 Canadian lines. From general observation, we know
5 that main lines readily can handle 15 or 20 million
6 gross ton-miles per mile of running track. The
7 multiple track operations of the Pennsylvania Railroad
8 show vastly higher capacities.

9 COMMISSIONER MANN: That \$15 million to
10 \$20 million dollar figure -- is that under CTC
11 conditions?

12 THE WITNESS: Well, it is 15 to 20
13 million gross ton miles, not dollars, but it is in
14 multiple track operation that could readily be
15 achieved, or under CTC. That comment is a more
16 general one than just the CTC.

17 These examples may be compared with the
18 maximum reported on the Canadian lines. In 1954,
19 CPR had 9.0 million net ton-miles per mile between
20 Winnipeg and Portage la Prairie. This is roughly
21 18 million gross ton-miles. On the CNR, the maximum
22 density in 1959 was 15.1 million gross ton-miles
23 between Chaudiere and West Junction. These are
24 only small fractions of the total Canadian main-line
25 mileage. They illustrate the fact that high
26 utilization is indeed practical in Canada.

27 Traffic Distribution CNR:

28 The Canadian National has made available
29 basic traffic summaries for 1959 which permit detailed
30 analysis of density in terms of freight gross ton-miles



1 per mile of track. These data were used to prepare
2 the maps described in Chapter IV. The Canadian National
3 operates light density lines in all areas. As shown
4 in Table V - 4, out of the system figure of 24,127
5 miles, 8,064 miles have less than 500,000 gross ton-
6 miles per mile. Such lines handle little better
7 than one train per day on the average. Another 2,490
8 miles of track handle between 500 thousand and one
9 million gross ton-miles per mile. Thus, 43.8 per
10 cent (see Table V - 5) of the total mileage on the
11 Canadian National consists of light density lines on
12 which traffic volume is barely sufficient to support
13 one train per day in each direction.

14 The lines of heavy density total 6,927
15 miles, or 28.7 per cent of the system. Only
16 Newfoundland has no segments with a density of four
17 million gross ton-miles.

18 MR. MacKIMMIE Q: Is there any discussion
19 on any of those tables, Mr. Saunders.

20 A. No, I think they speak for themselves.

21 Q. That is Table V - 5, and V - 6?

22 A. Yes.

23 As shown by Table V-6, the heaviest density
24 class averages 8.6 million gross ton-miles per mile
25 and thus compares quite favourably with the average of
26 U.S. roads. However, the next size group (1 to 4
27 million) has almost as many track miles but averages
28 only 2.0 million gross ton-miles. Thus, the total
29 of the two heavier density groups averages only 5.4
30



1 million - which is slightly below the U.S. average
2 for all lines.

3
4 Table V - 7 gives the percentage
5 distribution. Better than three-fourths of the
6 freight traffic on the Canadian National moves over
7 the heaviest density group. (Only in Newfoundland
8 is there no traffic in this category). At the other
9 extreme only 2.1 per cent of the traffic is handled
10 on the lightest density lines which represent 33.5
11 per cent of the total mileage.

12 I would like to pause there and underline
13 that, if I may. What that says is that a fiftieth
14 portion of the traffic moves over a third of the
15 mileage or the ratio of two to 33.5 is better than
16 16 to one. The likeness of the density on a third
17 of the mileage is roughly a sixteenth of the rest
18 of the railway system, and it is a very sharp
19 contrast and one which I believe is one of the major
20 factors that explains the present condition of the
21 Canadian National and the Canadian Pacific, as
22 we shall see from the other tables which will
23 follow.



Table V - 4

Canadian National Railways

Miles of Track, by Density Groups, 1959,
(Density = 000 freight gross ton-miles per
mile of track).

	(1)	(2)	(3)	(4)	(5)
	Density group				
	0-499	500-999	1000-3999	4000& Ov.	Total
	(number of track miles in each group)				
Maritime	1,276	323	870	878	3,347
Newfoundland	149	209	347	0	705
Quebec	424	462	688	396	1,970
Northern Ont.	291	95	397	974	1,757
Montreal	489	45	328	673	1,535
Southern Ont.	971	254	345	1,205	2,775
Manitoba	1,507	253	1,659	1,189	4,608
Saskatchewan	1,872	512	776	381	3,541
Alberta	962	238	737	492	2,429
British Col.	<u>123</u>	<u>99</u>	<u>499</u>	<u>739</u>	<u>1,460</u>
Total	8,063	2,490	6,646	6,927	24,127
Total	10,554			13,573	



Table V - 5

Canadian National Railways

Percentage Distribution of Track-Miles by Density Groups, 1959 (Density = 000 freight gross ton-miles per mile of track).

	(1)	(2)	(3)	(4)	(5)
	Density Group				
	0-499	500-999	1000-3999	4000&ov.	Total
	(percentage distribution of track-miles)				
Maritime	38.1	9.7	26.0	26.2	100.0
Newfoundland	21.1	29.6	49.3	0	100.0
Quebec	21.5	23.4	35.0	20.1	100.0
Northern Ont.	16.6	5.4	22.6	55.4	100.0
Montreal	31.9	2.9	21.4	43.8	100.0
Southern Ont.	35.0	9.1	12.4	43.5	100.0
Manitoba	32.7	5.5	36.0	25.8	100.0
Saskatchewan	52.9	14.5	21.8	10.8	100.0
Alberta	39.6	9.8	30.3	20.3	100.0
British Col.	8.4	6.8	34.2	50.6	100.0
Total	33.5	10.3	27.5	28.7	100.0
Total	43.8		56.2		



Table V - 6

Canadian National Railways

Freight Gross Ton-Miles Handled, by Density Groups,
1959 (Density = 000 freight gross ton-miles
per mile of track)

	(1)	(2)	(3)	(4)	(5)
	Density group				
	0-499	500-999	1000-3999	4000 & Ov.	Total
	(Millions of freight gross ton-miles handled)				
Maritime	243	226	1,995	8,012	10,476
Newfoundland	15	175	432	0	622
Quebec	96	302	1,463	3,251	5,112
Northern Ont.	72	59	1,052	7,699	8,882
Montreal	84	26	634	5,157	5,901
Southern Ont.	234	179	724	11,660	12,797
Manitoba	284	183	3,602	10,448	14,517
Saskatchewan	313	385	1,323	4,033	6,054
Alberta	197	177	1,108	5,022	6,504
British Col.	<u>36</u>	<u>73</u>	<u>1,066</u>	<u>4,478</u>	<u>5,653</u>
Total	1,574	1,785	13,399	59,760	76,518
Miles of track	8,064	2,490	6,646	6,927	24,127
GTM per mile of track (000)	195	717	2,016	8,627	3,171
GTM per mile of track (000)		318		5,390	



Table V - 7

Canadian National Railways

Percentage Distribution of Freight GTM by Density Groups, 1959 (Density = 000 freight gross ton-miles per mile of track).

	(1)	(2)	(3)	(4)	(5)
	Density Group				
	0-499	500-999	1000-3999	4000 & ov.	Total
	(percentage distribution of freight GTM)				
Maritime	2.3	2.2	19.0	76.5	100.0
Newfoundland	2.5	28.1	69.4	0	100.0
Quebec	1.9	5.9	28.6	63.6	100.0
Northern Ont.	.8	.7	11.8	86.7	100.0
Montreal	1.4	.4	10.8	87.4	100.0
Southern Ont.	2.0	1.5	6.1	90.4	100.0
Manitoba	2.0	1.3	24.8	71.9	100.0
Saskatchewan	5.2	6.4	21.9	66.5	100.0
Alberta	3.0	2.7	17.0	77.3	100.0
British Col.	.6	1.3	18.9	79.2	100.0
Total	2.1	2.3	17.5	78.1	100.0
Total		4.4		95.6	



Traffic Distribution CPR:

The traffic data available on the CPR are confined to net ton-miles. They are further limited in that the latest available year is 1954. While these difficulties are regrettable, they do not prevent a general survey of density. It must be borne in mind that net ton-miles reflect only the weight of the lading whereas gross ton-miles reflect the weight of the car in both the loaded and the empty direction. Roughly, the gross ton-miles are about twice the net ton-miles. Consequently, in making the density study on the CPR so as to be comparable with that on the CNR, we have used density brackets half as great as on the CNR.

Table V - 8 shows the track miles in each density group. Of 16,294 miles, 6,784 are in the lightest density bracket - less than 250,000 net ton-miles per mile of track. Again, this is roughly one train per day. At the other extreme, only 4,284 miles are in the heaviest density group. Looking at the two heavier groups as a whole, it is interesting that they account for 8,178 miles of track while the two lighter groups account for 8,116 miles of track -- just about as much mileage in each broad category.

Table V - 9 shows the percentage distribution of main track by density groups. Over one-third of the track miles handle 500,000 net ton-miles or more (per mile) in all districts except on the Dominion Atlantic Railway and the Quebec Central Railway.



1
2 The absolute traffic volume handled in
3 each district and in each density bracket is shown in
4 Table V - 10. The density in the heaviest group
5 averages 4.5 million net ton-miles per mile. This
6 is roughly the equivalent of 9 million gross ton-miles
7 -- just about the same as the utilization on the
8 heavy density lines of CNR. The two heavier brackets
9 combined represented 2.9 million net ton-miles,
10 which is the equivalent of the U.S. average of 5.7
11 gross ton-miles for all lines. For convenience the
12 data for the two roads are summarized below,
13 expressing the CPR figures as double the amounts shown
14 in Table V - 10.

15
16
17
18
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30



Table V - 8

Canadian Pacific Railways

Miles of Roadway, by Density Group, 1954
(Density = 000 freight net ton-miles per mile of road)

	(1)	(2)	(3)	(4)	(5)
	Density Group				
	0-249	250-499	500-1999	2000&ov.	Total
	(number of road miles in each group)				
Dominion Atlantic Railway	204	75	0	7	286
New Brunswick	342	36	373	6	757
Quebec Central	167	66	100	0	333
Quebec	593	88	482	419	1,582
Ontario	481	296	22	526	1,325
Algoma	118	0	260	833	1,211
Manitoba	1,208	30	466	770	2,474
Saskatchewan	1,905	234	1,014	244	3,397
Alberta	1,246	397	640	792	3,075
British Columbia	520	110	537	687	1,854
Total	6,784	1,332	3,894	4,284	16,294
Total	8,116		8,178		



Table V - 9

Canadian Pacific Railways

Percentage Distribution of Road Miles, by
Density Groups, 1954 (Density = 000 freight
net ton-miles per mile of road)

	(1)	(2)	(3)	(4)	(5)
	Density Group				
	0-249	250-499	500-1999	2000 &	Total
	(percentage distribution of road miles)				
Dom. Atlantic Ry.	71.4	26.2	0	2.4	100.0
New Brunswick	45.2	4.8	49.2	.8	100.0
Quebec Central	50.2	19.8	30.0	0	100.0
Quebec	37.4	5.6	30.5	26.5	100.0
Ontario	36.3	22.3	1.7	39.7	100.0
Algoma	9.7	0	21.5	68.8	100.0
Manitoba	48.9	1.2	18.8	31.1	100.0
Saskatchewan	56.1	6.9	29.8	7.2	100.0
Alberta	40.5	12.9	20.8	25.8	100.0
British Columbia	28.0	5.9	28.9	37.2	100.0
Total	41.6	8.2	23.9	26.3	100.0
Total		49.8	50.2		



Table V - 10

Canadian Pacific Railways

Freight Net Ton-Miles Handled, by Density Groups,
1954 (density - 000 freight net ton-miles
per mile of road)

	(1)	(2)	(3)	(4)	(5)
	Density Group				Total
	0 - 249	250-499	500-1999	2000 & over	
	(millions of freight net ton-miles handled)				
Dominion					
Atlantic Ry	26	22	0	15	63
N. B.	29	11	490	12	542
Que.Cen.Rly	17	23	69	0	100
Quebec	73	31	557	1,735	2,396
Ontario	52	96	16	2,560	2,724
Algoma	28	0	298	2,613	2,939
Manitoba	88	10	542	5,132	5,772
Saskatchewan	188	79	1,206	1,368	2,841
Alberta	118	125	740	2,834	3,817
B. C.	64	34	499	2,804	3,401
Total	683	431	4,417	19,073	24,604
Miles of road	6,784	1,332	3,894	4,284	16,294
Net ton-miles per mile of road (000)	101	324	1,134	4,452	1,510
Net ton-miles per mile of road (000)		137		2,872	



Average Density in Thousands of GTM per Mile

	<u>CNR</u>	<u>CPR</u>
Lightest	195	202
Next Lightest	717	648
Heavier	2,016	2,268
Heaviest	8,627	8,904

In Table V - 11, the percentage distribution of traffic is indicated. The Canadian National had 95.6 per cent of its traffic in the two heavier brackets and it is interesting to note that Canadian Pacific had 95.4 per cent of its traffic in these brackets. The CNR handled 78.1 per cent of its traffic in the heaviest density group, while the CPR handled 77.4 per cent of its traffic in the heaviest group. There is thus a remarkable similarity in the distribution of the traffic among density groups.

The Characteristics of Light Density:

In Canada, close to half of the mileage has a traffic density of less than one million gross ton-miles. On the average, the light density lines handle approximately 300 thousand gross ton-miles per mile of track whereas the heavy density lines average some 5 million gross ton-miles per mile of track, with a range from one million to more than 15 million. The composite is a combination of these wide extremes. Necessarily the average cost per gross ton-mile will be substantially different on the two types of lines.

However, these general characteristics of the



1
2 lighter Canadian lines are little different from those
3 elsewhere. They are part of the nature of railroading
4 and arise from the concept of building feeder lines.
5 Thus, in the United States, it is estimated that
6 branch lines handle approximately one-half million
7 gross ton-miles per mile of road, little different from
8 the branch line in Canada. But, in the United States,
9 the typical main line averages 5 to 10 million gross
10 ton miles per mile, and ranges as high as 100 million.
11 It is the main line and its heavy traffic density which
12 accounts for the big margin in the average density
13 of the U. S. railroads over the Canadian railroads.
14 Only about one-third of the U. S. mileage is in the
15 branch line class.

16 In short, the lighter density of the
17 Canadian railway system in comparison to that of the
18 United States has two important consequences:

- 19 1. Canada has more light density lines
20 relative to heavy density lines and
- 21 2. the heavy density lines in Canada handle
22 less traffic than the heavy density lines
23 in the United States.

24 A major portion of the financial problem of the
25 Canadian lines is due to the impact of density on
26 costs and revenue.



Table V - 11

Canadian Pacific Railways

Percentage Distribution of Freight Net Ton-Miles
by Density Groups, 1954

(Density -- 000 freight net ton-miles per
mile of road)

	(1)	(2)	(3)	(4)	(5)
	Density Group				
	0-249	250-499	500-1999	2000&Over	Total
	(percentage distribution of freight net ton-miles)				
Dom. Atlantic Rly	41.3	34.9	0	23.8	100.0
N. B.	5.4	2.0	90.4	2.2	100.0
Que. Central	15.6	21.1	63.3	0	100.0
Quebec	3.0	1.3	23.2	72.5	100.0
Ontario	1.9	3.5	.6	94.0	100.0
Agoma	1.0	0	10.1	88.9	100.0
Manitoba	1.5	.2	9.4	88.9	100.0
Saskatchewan	6.6	2.8	42.4	48.2	100.0
Alberta	3.1	3.3	19.4	74.2	100.0
B. C.	1.9	1.0	14.7	82.4	100.0
Total	2.8	1.8	18.0	77.4	100.0
Total		4.6		95.4	



CHAPTER VI

Branch Lines

It has been mentioned previously that much of Canada's railway system consists of light density lines. Most of these are branch lines used as feeders for main lines. From a cost point of view, of course, the critical factor is traffic density. In other words, it is not so important to consider whether a line is called a branch line of a main line. The important fact is the amount of traffic handled over which must be spread the cost of providing and maintaining the facilities. The lighter the traffic density, the higher the cost per unit of traffic. Thus, when we refer to "branch lines", we must always recognize that the basic characteristic is light density.

Public Policy Issues:

Before going into the magnitudes involved, it may be helpful to inquire what significance this may have. The lines are there, the investment has been made and the expenses are being incurred. However, there are several alternative courses of action. We may inquire as to whether the burden of the branch line system should be borne by freight shippers or passengers under the general rate structure. We may inquire as to whether all branch lines should be abandoned and that service be provided on the most economical and efficient basis strictly between main line points. Third, we may consider that there is an element of public policy involved in the maintenance of



1
2 some branch lines while some lines may represent merely
3 the results of early decisions which, while sound under
4 the circumstances in which they were made, may now be
5 unsound in the light of present day conditions.

6 As to such lines, should they be abandoned
7 irrespective of the impact on the communities affected?
8 Or, is it possible that alternative methods of
9 service may be found which will reduce the burden of the
10 branch line problem? It is in the light of the foregoing
11 issues that the assessment of magnitudes seems vital.
12 Only by considering the great size of the problem can
13 we appreciate the significance of the various possible
14 solutions.

15 Investment per Mile:

16 There was a considerable expansion of branch
17 lines during the early years of this century and par-
18 ticularly during the 1920's. In the years 1923-1931, the
19 CN and the CP spent over \$160 million in buying and
20 building branch lines totalling over 5 thousand miles
21 of road. About one-half of this mileage was added by
22 CN at a cost of about \$48 thousand per mile while the
23 costs of acquisition by the CP averaged \$32 thousand
24 per mile.

25 It is interesting to note here that the
26 difference in acquisition cost amounts to nearly \$16
27 thousand per mile. Using the cost of money yardstick,
28 it can be said that if the CN had acquired its lines
29 at the same cost as the CP, its revenue need require-
30 ments based on a 10 per cent cost of money factor would



1
2 be reduced by about \$1,600 per mile.

3 Perhaps I should explain that the 10 per cent
4 cost of money factor is one that is developed in the
5 railroad regression studies and used in their
6 analysis of the cost of grain. It represents the
7 equivalent of $6\frac{1}{2}$ per cent return on net investment
8 after income taxes, which is the equivalent of ten
9 per cent return before income tax.

10 If this is applied only to the 1,900 miles of
11 track built during the period 1923-1931, elimination
12 of the excess would reduce revenue needs by about
13 \$3 million annually.

14 Excessive Capital Costs:

15 The Duff Commission concluded that this was a
16 period in which intense rivalries between the two
17 giants produced an excessive, increased burden of
18 capital charges. The view of the CP at that time was
19 that it was forced to anticipate the building of lines
20 which might otherwise have been deferred except for
21 the threat of invasion by the CN. The CN, in turn,
22 argued that if it did not expand its own branch lines it
23 would be deprived of any opportunity for future develop-
24 ment. Thus, each defended its expenditures on the
25 ground that it was necessary to maintain its own
26 position for future competitive traffic solicitation
27 as against the threat of its giant rival. No
28 opportunity was given, therefore, to a full appraisal
29 of the economic consequences of these decisions for the
30 railway system as a whole -- including both lines.



1
2 It is not clear just what lines were involved
3 when the Canadian National suggested to the Turgeon
4 Commission that excess capital was invested in the
5 amount of \$170 million for national policy lines and
6 \$34 million for developmental lines. However, we can
7 make some approximations of the amounts of capital re-
8 quired for light density, or branch lines generally.

9 Branch Line "Cost of Money":

10 Turning first to the CPR, the records of the
11 company show a total of 9,364 miles of track classed
12 as branches. According to the Duff Commission in 1931,
13 the average cost per mile for 2,266 miles of branches
14 acquired in the years 1923-1931 was about \$32 thousand.
15 Using this factor as typical, we can estimate that
16 the CPR has invested about \$300 million in its branch
17 lines. This is exclusive of cars and locomotives.
18 Depreciated one-third and translated into annual burden,
19 based on 10 per cent as the cost of money, this means
20 necessary net earnings from branch lines of \$18 million
21 each year. This represents necessary profits after
22 all expenses and before income taxes.

23 By residual, it is also interesting to note
24 that CPR has \$965 million invested in a total of 8,597
25 miles of main line, an average of \$112 thousand per
26 mile. As is to be expected, the cost of a main line
27 is about four times as great as the cost of a branch
28 line mile. But, as indicated in a previous section,
29 the traffic volume is some ten times as great on main
30 lines. As a result the burden of return on investment



1
2 or cost of money per unit of traffic is much lower
3 on main lines than on branches.

4 Similar magnitudes are concealed by the com-
5 posite investment of the CNR. As mentioned previously,
6 it is estimated that 10,554 miles or 44 per cent of the
7 total track on the CNR handle less than one million
8 freight gross ton-miles per mile of track. Again using
9 the experience of the period 1923-1931, the average
10 investment per mile may be estimated at \$48 thousand.
11 This means that CNR has some \$500 million invested in
12 what we may call branch lines or relatively light
13 density lines.

14 The gross investment in road property
15 according to the records of CNR is nearly \$2 billion.
16 Thus, the branch lines represent 44 per cent of the
17 miles and 25 per cent of the road investment.

18 Allowing for one-third depreciation, this
19 means a net investment in branch lines of \$330 million,
20 on which a capital return would be sought. Approximately
21 10 per cent of this sum or \$33 million per year would
22 represent the burden of this cost element on the Canadian
23 National's traffic every year, under the costing methods
24 used by the railroads.

25 From the foregoing, it will be seen that roughly
26 one-fourth of the total road property return on both
27 CPR and CNR is attributable to branch lines. When
28 viewed as a cost, this means that 25 per cent of the cost
29 of money for roadway would have to be obtained from
30 branch lines traffic if each segment were to bear the



costs of the facilities it uses. The railroad costing procedures, if applied to main and branch line traffic, would assign a similarly substantial share of roadway cost of money to branches.

Turning now to traffic volume, the 1959 study by CNR. provides the basis for a conclusion that only 4 per cent of gross ton-miles are moved over lines of light density as defined herein. The C.P.R. study for 1954 indicated that a like proportion of their net ton-miles can be estimated to move over such lines.

Unit Costs on Branch Lines:

Thus, cost of money on branches represents 25 per cent of the system total but the revenue traffic involved represents under 4 per cent of the total. This means that the burden per unit of traffic on branch lines is 6 or 7 times as high as on main lines.

The foregoing emphasizes the great significance of density on one important element of revenue need. The more branch line service required, the higher the unit cost of any particular traffic being studied.

Other costs are also higher per unit of traffic. There is an element of track expense which goes on regardless of traffic. Allowing for this factor plus the items of track expense which are proportional to the total gross ton-miles handled on a line, the total track maintenance cost per revenue ton-mile on branches is approximately 7 or 8 times as great as it is on main lines.

Train expenses are also substantially higher



per unit of traffic on branch lines. This is partly because trains are lighter and the cost of locomotives, fuel, crews and supplies must be spread over fewer ton-miles. It is also because areas of light density cannot get as much utilization out of equipment and hence require more equipment per unit of traffic. Variations in diesel productivity are illustrated in Table VI - 1, using data for the Canadian National. The mileage per day in Newfoundland is much less than in the West; Newfoundland has no areas with as much as 4.0 million gross ton-miles per mile.

Table VI - 1

Average Daily Miles per Serviceable
Diesel Unit in Road Freight Service

<u>Year</u>	<u>Atlantic</u>	<u>Central</u>	<u>Western</u>	<u>Newfoundland</u>	<u>System</u>
1956	185	232	313	190	251
1957	173	212	273	143	223
1958	171	208	254	146	215
1959	184	205	247	161	215

Car costs are likewise higher per unit of service on branch lines. This comes about for several reasons. One is that the ratio of empty to loaded miles is much higher on branch lines. As a result, the cost of moving empties must be borne by relatively fewer units of traffic. Likewise, there is some tendency for active car-days to be higher per unit of traffic because train service is less frequent on branch lines and way trains perform both the switching and the



1
2 running. Furthermore, to the extent that yard crews
3 are used, more time may be required per car handled.
4 These factors raise the cost per ton-mile of traffic.

5 Overall, using the CPR cost technique, it
6 is estimated that the full costs per net ton-mile on a
7 light density line are four times as great as on a heavy
8 density line. Thus, any duplicative or other light
9 density lines built for reasons of national policy
10 have an important impact on the cost structure of the
11 Canadian railroads. This may be a critical factor
12 because almost half of the railway mileage in Canada
13 consists of such lines.

14 CHAPTER VII

15 NATIONAL POLICY LINES

16
17 As has been mentioned in Chapter IV, much of
18 the railway mileage in Canada is the result of
19 conscious decisions of national policy. These de-
20 cisions of the past produce cost and revenue problems in
21 the present. It is the purpose of this section to
22 indicate the dollar impact of these prior decisions
23 on today's financial needs.

24 Choice Available Today:

25 It may be asked: what value is there to such
26 an analysis? The answer is that if national policy
27 produced certain expenditures, the government should
28 re-assess the situation in the light of today's cir-
29 cumstances, conditions, and needs. If lines were built
30 for national policy reasons but are not justified today,



1
2 three choices exist. One choice has been adopted
3 up to now -- that is, accepting the burdens and having
4 them borne by the shippers and receivers of freight
5 and the travellers who use the passenger trains --
6 in proportion to the rates and fares they pay for the
7 use of railway service. It is questionable whether
8 this method could fairly apportion the burden because
9 rates are not usually made with these considerations
10 in mind.

11 Another solution is to say that lines which
12 were built for national policy reasons but are no
13 longer needed for these same reasons should be abandoned.
14 Such a decision could clearly not be entertained
15 lightly. The consequences would be of vast signifi-
16 cance to the economy of Canada. It is possible,
17 however, that there are some lines where alternate routes
18 could have been used which would have been less costly.
19 But should the old national policy line be andoned
20 and a new one built? If so, who would pay for this?
21 What would happen to the industries and communities
22 which had established themselves along the old line?

23 There is a third choice. If a line was
24 created for reasons of national policy, the excess
25 cost of such a line over what would have been involved
26 from a purely economic or business point of view, may
27 be created as a responsibility of the national government.
28 That is to say, if a line is important essentially
29 for reasons of national policy, the cost should not
30 be borne by the coal shipper, or the steel shipper or



1
2 the toy manufacturer or the grain producer but instead
3 should be borne out of funds of the appropriate department
4 of government. Some lines may represent a cost of
5 defense. Other lines may represent a cost of long-
6 term economic development. This is a form of the
7 concept of "solely relatedness" used in the CPR and
8 CNR cost studies. The question is there asked:
9 "Would this line be retained if it did not handle
10 the study traffic?" In this context, however, we
11 may ask: "Would this line have been built if it
12 had not had national policy implications?"

13 The Turgeon Report:

14 The significance of national policy lines
15 to the CNR may be illustrated by reference to data
16 supplied by the Canadian National to the Turgeon
17 Commission. At page 184 of the report, reference is
18 made to the fact that officials of the CNR estimated
19 that some \$170 million of its capital structure
20 consisted of uneconomic or wasteful lines built for
21 reasons of national policy.

22 COMMISSIONER GOBEIL: In the other para-
23 graph when you say that maybe some lines might be built
24 and charged to national defence, or whatever it might
25 be required for, in a case like that, if this was done,
26 would both railways go on this line? It would be a
27 line built by the government and made accessible to
28 both the CNR and CPR?

29 THE WITNESS: Yes, that would be one way to
30 do it. I had in mind, however, the existing lines



1
2 which we might look at and say certain lines would not
3 have been built except for reasons of defence, that we
4 want to have a line located in this place or an extra
5 line available to move emergency needs. The cost of
6 such a line could then be considered to be the cost
7 of an instrument of national defence, and whatever that
8 cost was would be borne by the national government
9 just as part of the defence project, rather than being
10 something that the coal shipper is asked to provide
11 enough revenue to cover.

12 COMMISSIONER ANSCOMB: That is only a book-
13 keeping entry. It does not solve the problem?

14 THE WITNESS: Well, it solves the problem
15 to this extent: it decides where the dollar shall be
16 put.

17 COMMISSIONER ANSCOMB: But the two lines are
18 still there?

19 THE WITNESS: Oh, yes, that does not answer
20 the question as to whether they could be eliminated or
21 integrated or a joint trackage applied over one of the
22 remaining lines.

23 MR. SINCLAIR: Could you give us an example
24 on the Canadian Pacific that you had in mind in answer
25 to these national defence lines?

26 THE WITNESS: Well, I think I have given
27 some references here to some of the historical discussion
28 about why some of these lines were built, and I would
29 not pretend to say this particular line in my opinion
30 was built essentially for national defence or essentially



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because there was competition with the Great Northern
or essentially some other reason. I think you gentlemen
are in a much better position to decide on the intimate
details of Canadian history than I.

---Short recess.



1
2 An additional \$34 million was included for so-called
3 "development lines." This sum of \$204 million, if
4 carried on the books today, represents a cost of money
5 or net earnings requirement of over \$20 million
6 annually for this one railroad. This is without
7 allowing for any excess*operating costs on such lines.
8 It is clear from the foregoing that the burden of the
9 national policy lines is one of major consequences in
10 today's Canadian railway problem.

11 The Maritimes:

12 As has been pointed out previously it was
13 a matter of national policy to build the line from
14 Halifax to Riviere du Loup. How can we translate this
15 into current dollars? Data made available by the
16 Canadian National show that in 1958 total operating
17 expenses chargeable to the Maritime District were
18 \$83 million (including some steamship and ferry costs).
19 With some 3,100 miles of track the average operating
20 expense per mile was about \$27 thousand. These
21 figures do not include the full cost of running and
22 depreciating freight cars but accepting the figure
23 as illustrative, it can be seen that sizable sums are
24 involved - even without considering the question of
25 how much capital is tied up in the provision of the
26 service. Since the system average was \$24 thousand per
27 mile, the excess amounts to over \$9 million per year
28 on the basis of costs per track mile. Expressed per net
29 ton-mile, the Maritime cost is 2.3 cents vs. a system
30



1
2 cost of 1.7 cents. If the Maritime's were average, the
3 CNR expense would decline by \$21 million.

4 In this connection, it is of interest to
5 note that, in 1958, CNR received some \$10.8 million
6 under the MFRA assistance program. This is not a subsidy
7 to the railway to cover its higher costs. It is merely
8 a method of making the railroad "whole". Stated
9 differently, the railroad receives its "normal" revenue
10 in two parts - one portion paid by the shipper and the
11 other paid by the government. On the basis of relative
12 expense in the territory, the MFRA system could be
13 expanded by about \$20 million annually on the CNR alone.

14 The Turgeon report, at page 158, suggests that
15 one reason for the present Maritime subsidy is the extra
16 mileage of the Inter-Colonial Railway due to strategic
17 considerations. Based on the foregoing, every 100 miles
18 of extra line means extra expense of 2.7 million
19 annually. Similarly, assuming that the average invest-
20 ment per mile in the Maritimes was equivalent to the
21 system average of \$85 thousand on the Canadian National
22 every 100 miles of extra line means extra investment of
23 \$8.5 million and consequently extra revenue needs,
24 based on the cost of money concept.

25 Newfoundland:

26 The records of the CNR show that in 1958
27 nearly \$13 million were charged to the operation of
28 the Newfoundland Railways. This amounted to \$18 thousand
29 per mile, compared with a system average operating
30



1
2 expense of \$24 thousand per running track mile. But
3 Newfoundland is an area of light traffic. During
4 1958 the Newfoundland lines handled approximately
5 210 million net ton-miles of freight traffic. The
6 expense per net ton-mile was 6.0 cents as compared with
7 the system expense of only 1.7 cents. While this does
8 not allow for passenger traffic, it is clear that
9 substantial savings could have been realized by the
10 Canadian National if Newfoundland traffic had been
11 handled on a system average basis. The excess costs
12 may represent a rough measure of the national policy
13 commitment to this area. This does not include allow-
14 ance for a return on the investment.

15
16 British Columbia:

17 One of the factors affecting confederation
18 was the lack of communication between British Columbia
19 and the rest of Canada. Accordingly, a commitment
20 was made as a matter of policy to build railway
21 facilities making British Columbia a more integral part
22 of the federal system. Through no fault of the people
23 in the province of British Columbia, this territory
24 is a rugged mountainous area in which construction and
25 operating costs are necessarily higher than in the
26 prairies. This problem was recognized at one time by
27 the existence of a mountain differential in rates. The
28 magnitudes may be illustrated by reference to the data
29 for the CPR. A total of under 1,900 road miles are
30 operated in British Columbia with a gross investment of



1
2 \$186 million or \$100 thousand per mile. This may be
3 compared with the system average investment of \$74
4 thousand per mile. Allowing for one-third depreciation
5 the excess net investment in road in British Columbia
6 over the system average investment is \$17 thousand
7 per mile. This means an extra net investment as a
8 result of construction in the mountain territory of
9 \$32 million. I might add in this connection that some
10 of the mileage was built at a cost of \$500 thousand to
11 \$700 thousand per mile, which is well above this average
12 we are discussing. In current terms this means that
13 of the total revenue needs sought to be met by the CPR
14 some \$3 million is attributable to the extra cost of
15 construction in British Columbia.

16 Mr. SINCLAIR: Just for clarification, do
17 you happen to have the comparison of average density
18 per mile in British Columbia compared with the average
19 density per mile in the prairies or the balance of the
20 system?

21 The WITNESS: I am sure we have it. I will
22 give that in effect of per ton-mile of traffic and
23 that will necessarily affect the reflected density.

24 The CPR net investment in British Columbia is
25 \$119 million. A 10.38 per cent return on this sum is
26 \$12 million. The cost of money per thousand gross ton-
27 miles in British Columbia is thus \$1.296. This is to be
28 compared with a cost of \$1.037 per thousand gross ton-
29 miles on the balance of the system.

30 The CPR records permit the calculation of



1
2 total Maintenance of way and Structures expense per total
3 gross ton-mile, including freight and passenger service
4 for the three years 1956-1958. During this period, the
5 average cost in British Columbia was 95.5 cents per
6 thousand gross ton-miles. On the balance of the system,
7 the average expense was 76.6 cents. Thus, maintenance
8 in British Columbia is 24.7 per cent more costly than
9 elsewhere per unit of traffic. If British Columbia
10 traffic were handled at the maintenance levels elsewhere
11 on CPR, the saving in this item would amount to \$1.8
12 million annually.

13 I should add in answer to Mr. Sinclair that
14 if the traffic density in British Columbia were less
15 than it actually is, this percentage excess would be
16 still higher than this 24.7 per cent. So the figures
17 we have now reflect the existing density and the
18 existing maintenance costs.

19 In 1949, the CPR made some detailed studies
20 of its mountain territory operating problems. These
21 studies showed the high frequency of grade and
22 curvature in mountain territory and dramatically
23 portrayed the extra cost per mile experienced at that
24 time. Capital expenditure for additions and betterments
25 between 1910 and 1947 averaged \$31 thousand per mile in
26 British Columbia, more than double the \$15 thousand
27 experienced in the prairies. Further, maintenance of way
28 expense per thousand gross ton-miles was 48 per cent
29 higher, transportation 44 per cent higher and total
30 expense 40 per cent higher. The extra cost due to



1
2 mountain operation was estimated at \$9 million annually
3 at that time. Equivalent analysis today would undoubt-
4 edly show much greater expenses. The principles are
5 also applicable to the operations on CNR. On any basis,
6 substantial sums are required to build and operate
7 railroads in mountain territory as compared with
8 conditions of straight and level track.

9
10 General:

11 Similar comments may be made about the
12 various other national policy lines in Canada on both
13 CPR and CNR. It is clear that the sums involved in
14 terms of operating expenses and in terms of capital
15 invested, together with the related return on investment
16 are substantial factors and have a material bearing on
17 the present total revenue needs of the Canadian lines.
18 If the national policy lines had not been built, total
19 railway operating expenses today would be lower per
20 unit of traffic and the result would be a better net
21 revenue showing for both the Canadian National and the
22 Canadian Pacific. Had they not been built, however, the
23 location of communities and industries in Canada would
24 also have been materially different. The economy of
25 Canada today is clearly bound up with the structure of
26 the railway system as it actually developed over the
27 years. Such a system cannot be disturbed without
28 serious consideration.

29 There is a substantial difference in size
30 of plant and related costs between what exists and what



would exist if purely economic needs had prevailed. This difference is the cost of decisions made for national policy considerations. Whether these were based on military needs or matters of national prestige or on the simple desire to anticipate future needs and thus possibly to hasten economic development - whatever the reasons. Canada may now properly ask itself whether the costs shall continue to be borne by the customers of the railways. As will be developed in Chapter X, the policy with respect to railroading is unique; the decisions are made on quite different grounds when policies are determined in other forms of transport.

CHAPTER VIII

Passenger Service

Branch lines do not constitute the only general type of problem faced by the Canadian railways. Passenger service is a matter of serious concern from a national point of view. The CPR derived nearly \$63 million from passenger service in 1958 and the CNR obtained over \$66 million from this source. These are very large magnitudes, even for railroads.

Traffic Trends:

The passenger traffic pattern on Canada's railroads is much like the history of freight service.



1
2 In earlier times, the iron rail was the major mode of
3 intercity travel but changes in technology and society
4 have produced a revolution in modern times.

5 Table VIII - 1 shows what has happened to
6 rail passenger traffic in relation to total population.
7 In 1920, the average Canadian traveled 412 miles per
8 year by rail. By 1933, depression and other factors had
9 cut his rail movement to only 131 miles. This rose
10 somewhat during the recovery period and then rose
11 sharply in the war years. In fact, by 1944 the rails were
12 moving the average person some 575 miles per year - far
13 above the prior peaks.

14 Since that time, the average Canadian has
15 sharply reduced his dependence on rails. In recent
16 years, the average has dropped to between 175 and 185
17 miles per year.
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Table VIII - 1

Railroad Passenger Miles Per Capita in Canada
1920 - 1957

Passenger Miles Per Capita

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
1920	412	1930	237	1940	191	1950	205
1921	337	1931	168	1941	279	1951	222
1922	315	1932	137	1942	428	1952	218
1923	341	1933	131	1943	553	1953	201
1924	314	1934	143	1944	575	1954	187
1925	313	1935	146	1945	528	1955	184
1926	317	1936	158	1946	378	1956	181
1927	317	1937	175	1947	297	1957	176
1928	319	1938	160	1948	271		
1929	289	1939	155	1949	237		

Distribution of Intercity Travel:

That total travel has not declined is clear from Table VIII - 2. This shows the trend of intercity passenger miles by all forms of transport since 1948. Unfortunately, estimates are not available for prior years. But by linking this table with the material in the previous table we can clearly trace the broad outlines.

The total travel appetite of Canadians has been increasing over the years. During the war, other forms were sharply curtailed and the result was a



1
2 diversion of necessary trips to rail. This coupled with
3 military movements accounts for the dramatic improvement
4 in rail participation in the intercity travel market.

5 Since 1948, total volume has increased from
6 19 billion to 43 billion passenger miles. Yet the
7 rails have actually declined from 3.5 to 2.5 billion.

8 While emphasis is often placed on the dramatic
9 growth of airlines, it is important to note that by far
10 the principal shift has been caused by the motor
11 vehicle. Although bus movements have actually declined,
12 the passenger automobile has shot up from under 12 billion
13 in 1948 to nearly 37 billion passenger miles in 1958.

14 Percentage Distribution and Indexes:

15 The percentage distributions are revealing
16 (Table VIII - 3). The railroad proportion has fallen
17 from 18.3 per cent to 5.7 per cent of the total.
18 Meanwhile, the private automobile has gone up from
19 61.5 per cent to 85.1 per cent.
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Table VIII - 2

Intercity Passenger Miles by Type of Carrier

Canada
(1948 - 1958)

Millions of Revenue Passenger Miles

<u>Year</u>	<u>Rail</u>	<u>Air</u>	<u>Bus</u>	<u>Passenger Automobiles</u>	<u>Total</u>
1948	3477	385	3463	11719	19044
1949	3193	465	3743	15686	23087
1950	2816	551	3478	17306	24151
1951	3110	680	3433	20443	27666
1952	3151	806	2942	23595	30474
1953	2986	942	2727	26038	32693
1954	2863	1067	2456	27664	34050
1955	2892	1224	2337	29968	36421
1956	2908	1547	2134	33000	39589
1957	2925	1835	1880	35070	41710
1958	2486	2142	1865	36980	43473



Table VIII - 3

Percentage Distribution

of

Intercity Passenger Miles by Type of Carrier

Canada
(1948-1958)

<u>Year</u>	<u>Rail</u>	<u>Air</u>	<u>Bus</u>	<u>Passenger Automobiles</u>	<u>Total</u>
1948	18.3	2.0	18.2	61.5	100.0
1949	13.8	2.0	16.2	68.0	100.0
1950	11.6	2.3	14.4	71.7	100.0
1951	11.2	2.5	12.4	73.9	100.0
1952	10.3	2.7	9.6	77.4	100.0
1953	9.1	2.9	8.3	79.7	100.0
1954	8.4	3.1	7.2	81.3	100.0
1955	7.9	3.4	6.4	82.3	100.0
1956	7.3	3.9	5.4	83.4	100.0
1957	7.0	4.4	4.5	84.1	100.0
1958	5.7	4.9	4.3	85.1	100.0



1
2 These percentage changes can be visualized in
3 another form by means of the indexes in Table VIII -4.
4 It is clear that a major upheaval has occurred.

5
6 The Nature of Competition:

7 The foregoing shows dramatically that the
8 railroad passenger problem arises essentially from the
9 competition of modes of transport which receive important
10 government assistance. The principal competition is from
11 the private automobile operating over a publicly pro-
12 vided right-of-way. As a minimum, it has an advantage
13 because it shares little or none of the fixed costs of
14 property which are characteristic of the railroads.
15 Busses, although a declining element of the total traffic
16 picture, nonetheless haul passengers over a right-of-way
17 provided with government funds. The airways are also
18 provided at government expense and are treated as part
19 of the national interest.

20 Air Transport:

21 As shown in Table VIII - 5, air transport has so
22 some serious implications insofar as rail prospects are
23 concerned. The number of passengers handled by scheduled
24 carriers has increased from 347,000 in 1945 to over
25 4,000,000 in 1959. In addition, there has been a
26 substantial increase in the activity of non-scheduled
27 carriers who handled some 520,000 passengers in 1959 --
28 considerably more than the entire industry handled in 1945.

29 Furthermore, the airlines have been hauling
30 increasing quantities of mail - an item which in the past



has been an important source of railroad passenger service revenue.

Table VIII - 4

Index

of

Intercity Passenger Miles by Type of Carrier

Canada
(1948 - 1958)

(1949 = 100)

<u>Year</u>	<u>Rail</u>	<u>Air</u>	<u>Bus</u>	<u>Passenger Automobiles</u>	<u>Total</u>
1949	108.9	82.8	92.5	74.7	82.5
1949	100.0	100.0	100.0	100.0	100.0
1950	88.2	118.5	92.9	110.3	104.6
1951	97.4	146.2	91.7	130.3	119.8
1952	98.7	173.3	78.1	150.4	132.0
1953	93.5	202.6	72.9	166.0	141.6
1954	89.7	229.5	65.6	176.4	147.5
1955	90.6	263.2	62.4	191.0	157.8
1956	91.1	332.7	57.0	210.4	171.5
1957	91.6	394.6	50.2	223.6	180.7
1958	77.9	460.6	49.8	235.8	188.3



Table VIII - 5

Growth of Canada's Air Transport
1945 - 1959

	Passengers		Mail	
	Scheduled Carriers	Non- scheduled Carriers	Scheduled Carriers	Non- scheduled Carriers
	No.	No.	Tons	Tons.
1945	347,149	18,716	2,557	41
1946	547,127	63,416	2,406	52
1947	597,917	111,458	2,961	69
1948	749,627	163,601	4,466	96
1949	878,980	155,599	6,008	186
1950	1,115,439	155,053	6,506	181
1951	1,373,204	182,153	6,893	247
1952	1,632,532	264,473	7,387	374
1953	1,861,953	349,784	8,166	377
1954	1,986,755	329,910	10,667	414
1955	2,313,822	404,515	11,620	514
1956	2,879,463	441,642	12,144	641
1957	3,244,961	481,642	13,812	820
1958	3,608,734	414,203	14,932	761
1959*	4,155,356	520,420	15,597	850

* Preliminary figures only.

These rapid rates of growth have been realized to a considerable extent because of government expenditures. In addition to operating subsidies which were provided to municipal airports and Trans-Canada Air Lines, there are millions of dollars spent each year to cover operating cost of airways and airports, meteorological



1
2 services and radio aviation. Lessard in his
3 "Transportation in Canada" for the Royal Commission
4 on Canada's Economic Prospects (1956) comments that
5 "since 1950, the normal annual capital expenditures
6 by the Department of Transport for Air Services
7 appear to be in the neighbourhood of \$15 million." His
8 estimate as of 1953 was that the total federal invest-
9 ment in air service amounted to over \$400 million.

10 If the same cost of money yardstick were
11 applied to this sum as the railroads urge before this
12 Commission, the federal investment would require
13 the users to pay some \$40 million in additional annual
14 revenues for air service. Theoretically, if the rail-
15 roads were to compete with the air lines on an equal
16 basis, not only would there be an allowance of these
17 amounts for return on capital but in addition the
18 carriers would be required to pay the equivalent
19 of property taxes on the value of the government
20 investment in airport and other facilities.

21 Bus and Auto Transport:

22 The interurban bus, of course, uses publicly
23 provided facilities. The private automobile is used to
24 a considerable extent within urban areas but is an
25 important user of the intercity highway system.
26
27
28
29
30



Table VIII - 6

Growth of Bus and Automobile Regis-
trations
1928 - 1959

<u>Year</u>	<u>Bus</u>	<u>Automobile</u>
1928	<u>1/</u>	930,619
1936	2,154	1,041,529
1945	6,136	1,160,058
1949	10,078	1,672,352
1953	12,162	2,513,754
1954	12,692	2,688,465
1955	12,437	2,935,417
1956	13,129	3,187,099
1957	14,103	3,383,419
1958	15,186	3,572,963
1959	17,902	3,774,233*

1/ Prior to 1933 buses included with motor trucks

* Excludes Newfoundland.

Table VIII - 6 shows the trend in bus and auto registrations since 1928. Development has been rapid, particularly in the case of automobile registrations.

Government Expenditures on Highways:

We showed in Chapter II how the highway mileage in Canada has been increasing over the years. This physical growth required substantial expenditures by Federal, Provincial and Municipal agencies. Table VIII - 7 shows the trend for selected years since 1920.

1920 - 1958
(millions of dollars)

Year	Expenditures by Purpose			Expenditure by Source		Total	Highway Revenue from Gasoline Tax & Licensing
	Construc- tion	Mainten- ance	Adminis- tration	Federal	Provin- cial		
1920	26.3	9.5	--	2.0	33.8	35.8	--
1925	31.6	15.3	--	2.1	44.7	46.8	11.5
1930	67.6	25.2	--	4.0	88.8	92.8	42.8
1935	45.1	30.4	3.5	10.2	53.0	70.0	54.6
1940	66.3	43.7	5.8	2.0	96.4	115.7	85.5
1945	37.7	61.6	4.3	1.2	73.6	103.6	93.0
1946	90.4	71.5	7.1	6.3	126.8	169.1	113.5
1947	141.0	115.1	10.9	8.0	211.6	267.0	157.1
1948	172.9	119.3	14.1	6.4	251.5	306.4	175.6
1949	184.1	122.8	12.2	10.4	244.7	319.2	196.0
1950	183.6	132.1	15.4	17.2	247.0	331.0	222.3
1951	229.3	151.7	16.9	21.9	293.1	399.4**	252.2
1952	284.9	174.8	15.8	25.2	356.0	475.6**	278.0
1953	284.6	177.1	17.5	27.0	347.9	480.0**	307.7
1954	278.8	217.0	26.6	33.8	366.0	522.5**	329.6
1955	358.6	228.1	37.2	37.1	449.1	624.9**	377.9
1956	500.5	233.0	46.7	60.4	543.8	783.3***	422.8
1957	591.6	224.6	26.1	82.6	603.0	862.2***	480.3
1958	636.0	264.5	32.9	98.9	640.8	937.1***	504.5

* Data not available prior to 1934.

** Includes amounts not distributed between construction, maintenance and administration

*** Includes amounts not distributed between construction, maintenance and administration and expenditures by others not distributed between forms of government.



1
2 In 1920, the total expenditures amounted to
3 under \$36 million. Virtually all of the total was
4 spent by provincial government. (Municipal data were not
5 available at that time.) With a relatively new and
6 expanding highway system, the bulk of the expenditures
7 were for construction rather than for maintenance -- the
8 ratio of the construction to maintenance being nearly
9 3 to 1. By 1930 total expenditures had increased
10 nearly threefold. Provincial governments were still
11 the principal source of funds. The ratio of construc-
12 tion to maintenance was approximately $2\frac{1}{2}$ to 1.

13 Highway programs were curtailed during the
14 depression years and again during the war years.
15 Immediately after the war, however, there was a
16 great expansion in the program. By 1950 Canada
17 was spending over \$180 million annually on construction
18 and over \$130 million on maintenance. It will be
19 observed that by this time the ratio of construction
20 to maintenance is much smaller as highways become
21 older and a relatively larger share of the expenditure
22 program goes into the preservation of the existing
23 highways rather than the construction of new ones.
24 By 1958, the total highway program had reached almost
25 \$1 billion.

26 During this same time there were gradual changes
27 in the sources of funds. As of 1920 there were no user
28 charges and the general taxpayer was called upon to
29 meet the full cost of the highway program. In later
30 years gasoline and other taxes were imposed which



1
2 represented at least a partial offset to the government
3 expenditures. In 1930, for example, less than half
4 of the expenditures were offset by highway revenues.
5 By 1950, highway revenues were roughly two-thirds
6 as great as expenditures. As of 1958 the total
7 expenditure of \$937 million was far above the \$504
8 million of highway revenue received in that year.
9 This may be characterized as an "indirect cost" to
10 the general public since it is not made up directly
11 by the users of transportation.

12 Impact of Government Expenditures:

13 The foregoing is illustrative of the fact
14 that there are substantial government funds which
15 unquestionably help the competitors of the railways.
16 This is an important inequity in the transportation
17 pattern in Canada. Government funds are being used
18 to make easier the movement of passengers via one form
19 of transportation relative to another. The trends
20 in traffic indicate that the diversion has been sub-
21 stantial and that rail revenues are below what they
22 would have been if government expenditures had been made
23 with an eye to equalizing competition rather than
24 merely the development of new forms of transport.
25 This does not make the development "bad" or "unsound"
26 from a national point of view, but certainly one of the
27 concealed costs of the national policy has been the
28 resulting drop in railway revenues.

29 The Railroad Response to Competition:

30 Faced with the decline in traffic and the



1
2 rise of competition, what did the railroads do?
3 Over the years there has been a decline in the
4 number of passenger train-miles. Likewise, trains
5 have become shorter, with car-miles decreasing faster
6 than train-miles. Nonetheless, the fact is that the
7 Canadian passenger train equipment is less fully used
8 than the corresponding equipment in the United States.
9 Table VIII - 8 shows the characteristics of passenger
10 service in Canada and the U. S. for 1958.

11 It will be observed that the Canadian roads
12 rely somewhat more heavily on passenger carriage
13 for revenue than do those in the U. S., with cor-
14 respondingly less head-end revenue. This is par-
15 ticularly so on the CPR which receives less than
16 one quarter from this source, compared with one-third
17 on U.S. lines. (The CPR makes up some of this
18 difference with a remarkably high -- 5.5 per cent --
19 yield from news services and restaurants.)

20 I do not believe I have explained heretofore
21 what "head-end" revenue means. One tends to use
22 phrases like this without realizing that they have not
23 been used before. I would like to think of a passenger
24 train having two basic functions: the movement of
25 things and the movement of people, and the movement of
26 the people is, of course, the passengers themselves.
27 But typically in a passenger train the head-end, the
28 forward end behind the engine is where the "things"
29 are carried. And by things we mean the mail and the
30 express and the baggage, and possibly milk and cream and



1
2 possibly other commodities. These are very different,
3 both as to equipment used and as to the service provided,
4 and the revenue results of these two kinds of services
5 in one train are extremely important and we will
6 develop that further later on where we evaluate the
7 relative burden, if you will, of the handling of people
8 verus the handling of things on the Canadian National
9 and Canadian Pacific in so far as it affects their
10 passenger deficits and total revenues.

11 The principal element in the lower importance
12 of head-end revenues is mail, which on a percentage
13 basis is only a third to a half of the U.S. level.
14 Express revenues compare favourably, in percentage
15 terms, about double their role in the U. S. When
16 it is recalled that passenger train revenues per mile
17 of road in the U. S. were as much as 100 per cent
18 higher (Table V - 2), the relative lack of mail
19 revenue is seen as a crucial aspect of the Canadian
20 passenger situation.

21 COMMISSIONER MANN: Will there be a change
22 in the United States if, as and when the all-up ser-
23 vices are available in the United States?

24 THE WITNESS: Well, there will certainly
25 be a change, but perhaps not as much as one might
26 think offhand. I do not recall the figures off the
27 top of my head, but you have to realize that the bulk
28 of the mail work -- that is to say, the ton-miles of
29 mail are not generated by first class letters; they
30 are generated by fourth class parcel post. Possibly



1
2 75 per cent of the physical volume is of that sort
3 in the United States. I do not know what the situation
4 is in Canada. So, when you have an all-up policy
5 you have a shifting of all the consist of the trains.
6 I don't know just what that will do to the train
7 activities.

8 COMMISSIONER MANN: If you are talking in
9 terms of revenue, the first class mail is more
10 remunerative than the third class or lower classes.
11 So, even then you are left with a fairly large number
12 of net ton-miles of third class matter. The revenue
13 direction is not going to be so great.

14 THE WITNESS: I am not so sure of that, Mr.
15 Commissioner, at all. I suppose if you ask about
16 gross revenue that might be the case, but we do
17 have these different services that go into the first
18 class. You have the R.P.O. car and the man in it,
19 for example, and a whole lot of different functions
20 involved there. I suppose the answer is yes, that
21 must inevitably be true. The revenue as revenue
22 is greater per pound.

23 THE CHAIRMAN: It will decline?

24 THE WITNESS: It will decline, and it will
25 decline per unit as a result of an all-up programme.

26 COMMISSIONER BALCH: What is the policy of
27 the government of the United States in regard to the
28 carrying of mail? Have they interfered at all in
29 the carriage of mail.

30 THE WITNESS: Oh, yes. I would say the



1
2 policy has been to try to move it in the most
3 economical way, and in effect to apply the rather
4 strict competitive pressure on the railroads. The
5 railroads set up a general rate structure and say,
6 "This is the kind of scale we want to apply". And
7 as soon as that is in, the post office will come in
8 and say, "Between point A and B we have a trucker
9 who would like to carry it for 30 cents a mile and
10 your rate is 60 cents. Will you amend the scale
11 rate?" And the railroad very often says, "We will
12 do it for 42 cents and provide some additional service."
13 And the post office may leave it on the rail or still
14 give it to the trucker. A lot of competition has
15 been injected in the last several years.

16 MR. SINCLAIR: For a further expansion:
17 maybe Mr. Saunders could tell the Commission the
18 relative revenue postal position of the United States
19 government versus the Canadian.

20 THE WITNESS: I don't understand the question.

21 MR. SINCLAIR: I was wondering if you could
22 tell the Commission whether the United States mail
23 department -- the postal department ---

24 THE WITNESS: The post office department.

25 MR. SINCLAIR: -- whether the post office
26 department operates on a break-even basis or with a
27 very substantial deficit, or whether the situation is
28 comparable in Canada.

29 THE WITNESS: I do not know about the situa-
30 tion in Canada at all.



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MR. SINCLAIR: What about the United States?

THE WITNESS: If you say the post office as a whole, it operates something in the hole. I do not know what the percentage would be. I don't think it is a big percentage any more.

If you talk about the fourth class and the bulk mail, I would say the post office would argue that there is a sizeable burden of cost in excess of revenue on the bulk mail, but I do not know -- I am not sure I get the full import of what you are saying.

MR. SINCLAIR: I think the Commission does, Mr. Saunders.

THE WITNESS: Thank you, Mr. Sinclair.

MR. SINCLAIR: What my understanding is ---

THE WITNESS: I just want to clarify it for my own benefit.

MR. SINCLAIR: The United States Post Office Department operates at a substantial deficit and the Postmaster General of Canada has recently announced the marked contrast of his department compared to his counterpart in the United States.

THE WITNESS: Does it change anything we are talking about on train revenues, or anything? I am looking for clarification.

MR. SINCLAIR: Maybe there is an all-up first class mail in Canada. That is the reason for some of the other questions -- and it may have very great differences in the revenue situation.

Table VIII - 8

Characteristics of Passenger Service, Canada and U. S., 1958

	<u>CPR</u>	<u>CNR</u>	<u>U.S. Class 1 Railroads</u>
<u>Percentage distribution of revenue by class of service</u>			
Transportation	88.5	94.1	94.7
Passenger carrying	65.3	63.9	60.7
Passenger	56.0	57.5	54.2
Sleeping and parlour car	9.3	6.4	6.0
Head-end	23.2	30.2	34.0
Mail	8.7	12.5	26.3
Express	14.1	17.2	7.3
Incidental	11.5	5.9	5.3
Dining and buffet	5.7	5.0	4.5
News service and restaurant	5.5	.2	.3
<u>Train revenues per car-mile, including dining and buffet</u>			
Passenger carrying	\$.488	\$.414	\$.561
Head-end	.255	.210	.421
<u>Physical characteristics</u>			
Cars per passenger train	9.0	8.9	9.8
Passenger carrying	5.7	5.0	6.0
Head-end	3.4	3.9	3.8
Revenue passenger density:			
per passenger carrying car	12.5	10.7	16.0
per train	71	54	96
<u>Utilization of cars by type of car (miles per year)(000)</u>			
Coach	52.4	45.1	61.9
Sleeping, parlour and observation	96.9	100.8	110.8
Dining	83.4	80.7	100.1
Head end	60.3	63.1	73.4
Total	67.1	61.6	75.7



1
2 This is further evinced by the train
3 revenues per head-end car-mile which are only 50 to
4 60 per cent of the U. S. Incidentally, the CPR seems
5 to achieve greater productivity from its head-end
6 service than the CNR, for it has 20 per cent higher
7 revenues per car-mile, despite a markedly lower
8 percentage of total revenues from this source.

9 The train revenues per car-mile from passenger
10 carriage are also 15 to 25 per cent lower than the U. S.,
11 the CPR again appearing in a better position than its
12 Canadian rival, perhaps owing to a greater percentage
13 revenue from sleeping and parlour cars than either the
14 CNR or the U.S. lines.

15 In seeking further light on these differences,
16 among the two Canadian and the U.S. lines, we may look
17 at certain physical characteristics. The length of
18 passenger trains, and their consist in terms of passenger
19 carrying and head-end cars is quite similar throughout.
20 But the number of revenue passengers per train, and thus
21 per passenger carrying car follow the same descending
22 pattern found in revenues per car-mile, viz., CPR lower
23 than U.S., and CNR lower than CPR.

24 It is also interesting to note the degree of
25 utilization of passenger cars. The Canadian roads
26 extract decidedly fewer car-miles per year from their
27 fleets as a whole, as well as from the various types
28 of cars in use. As between the Canadian roads, the
29 CPR does much the better with respect to coaches, but in
30 all other types there is little difference between them.



1
2 In summary, the revenue and physical
3 characteristics of passenger service show us that
4 the Canadian roads receive far less revenue per
5 unit of service, particularly in the head-end class,
6 and that the position of CPR is more favorable than
7 the CNR. This in turn comes about by virtue of
8 CPR's use of proportionately fewer car and train-miles
9 produced by a smaller and more productive inventory
10 of cars.

11 I would like to interpolate there that -
12 this seems to be particularly true in 1958. Prior
13 to that year the two roads were fairly similar in
14 their response to the competitive pressure; that is,
15 they were reducing their car miles and their train
16 miles in a fairly similar way responding to train
17 miles in passenger miles. At the beginning of 1958
18 the Canadian Pacific seems to have taken a little
19 harder look at the problem and begins to show a
20 much sharper drop in the volume of service provided,
21 and I imagine the 1959 comparisons would show
22 a continuation of that trend -- a sort of a hardening
23 of the program.

24 We therefore may expect the cost of
25 passenger service on the Canadian lines to be greater
26 than the U.S. in relation to revenues. Also, it is
27 to be anticipated that the CNR would labour under a
28 greater burden in this respect than the CPR.

29 MR. SINCLAIR: If I may interrupt there,
30 this station cost and following on the next two pages,



1
2 and particularly on the top of page 103 and the
3 middle of page 102 is one of the areas in which the
4 witness gets into costing techniques which I understand
5 from your order the other day were not to be gone
6 into or discussed.

7 THE CHAIRMAN: They won't be attacked at
8 all, will they?

9 THE WITNESS: No, sir.

10 MR. SINCLAIR: They are on these pages.

11 MR. MacKIMMIE: Not as I see it, Mr.
12 Chairman. This will all be discussed and tested and
13 analysed, or the technique, in the second volume;
14 but, this is merely, as I appreciate it, Mr. Saunders'
15 conclusions again.

16 THE CHAIRMAN: Well, perhaps, Mr. MacKimmie,
17 this part might go in with Volume 2.

18 MR. MacKIMMIE: May I have just a minute
19 to talk with Mr. Saunders on that?

20 Mr. Chairman, I may have misunderstood,
21 not having been here, but Mr. Saunders advises me
22 this is no different from the manner in which he
23 has treated branch lines or will treat, in the next
24 paragraph, small shipments. It is merely the use
25 of what the Canadian Pacific -- or, the use of the
26 technique of the Canadian Pacific in costing traffic,
27 and we are not attacking anything here.

28 THE CHAIRMAN: There is no attack on the
29 technique?

30 MR. MacKIMMIE: Not here, sir, no.



1
2 MR. SINCLAIR: Well, on page 102:

3 "Conceptually, it is different
4 from the regression studies used by CPR
5 in its new costing procedure."

6 At the top of page 103: "These assumptions..."
7 -- and this is different -- "These assumptions are
8 not sufficiently important to invalidate any of the
9 fundamental conclusions to be derived from the data."
10 We, of course, object to that and say that these
11 assumptions are important and do destroy the assumptions
12 that are made. This is where the argument in dispute
13 comes in. The witness says one thing and we say some-
14 thing ~~else~~, and that is why I say they should not be
15 discussed at this time in view of your ruling of the
16 other day, sir.

17 MR. MacKIMMIE: Mr. Chairman, my position
18 is very simple. My learned friend will have all the
19 opportunity to examine and cross-examine as much as
20 he likes on any question that may appear from this
21 text, not only in this part of it, and I am a little
22 at a loss to understand why the objection is taken
23 to its being put in. It is going to go in sometime.
24 What difference does it make to my friend whether
25 it goes in now or in volume 2? That is what left
26 me with a little question mark in my mind. Why
27 doesn't he want it in now?

28 MR. SINCLAIR: Just because it happens
29 to be the ruling of the Commission.

30 MR. MacKIMMIE: Is that all? Is that the



1
2 only objection?

3 MR. SINCLAIR: That is the only objection
4 at this moment.

5 MR. MacKIMMIE: Well, I would ask, if
6 your objection is only because of the Commission
7 ruling ---

8 MR. SINCLAIR: I said that is the ground
9 I put it on at this moment.

10 MR. MacKIMMIE: I must say if this were
11 a court of law, it is a question as to whether it
12 goes to weight of evidence. It goes in, and I don't
13 quite understand the concern. If we were attacking
14 something here, or my friend was obliged to cross-
15 examine now ---

16 THE CHAIRMAN: Are you pressing your
17 objection, Mr. Sinclair?

18 MR. SINCLAIR: I am relying on the ruling
19 of the Commission.

20 THE CHAIRMAN: Are you pressing that
21 objection?

22 MR. SINCLAIR: Oh yes, Mr. Chairman, I
23 want the ruling of the Commission carried out.

24 THE CHAIRMAN: Could you go on and we
25 will decide that in the morning?

26 MR. MacKIMMIE: My friend takes the same
27 objection, I assume, to small shipments because we
28 also make a general statement of that kind, so
29 perhaps we had better drop the whole thing until
30 tomorrow. We can certainly finish tomorrow.



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Saunders, dir.
(MacKimmie)

16147

1
2 THE CHAIRMAN: Very well, we will adjourn
3 until 10:00 o'clock tomorrow morning.

4 ---Adjournment.
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Hon. C. F. McLaughlin

ROYAL COMMISSION

ON

TRANSPORTATION

HEARINGS

HELD AT

OTTAWA

VOLUME No.:

95

DATE

27 & 28

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I N D E X

Page No.

V.M. Stechishin

Cross-examination

By Mr. Frawley

16156

By Mr. McDonald

16221

By Mr. Sinclair

16268



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I N D E X

Page No.

SAUNDERS, W.B.

Direct examination
By Mr. MacKimmie

15990

E X H I B I T S

156 Map A - Eastern Canada: Effect
of competitive building on light
density lines.

16059

157 Map B - Western Canada: Effect
of competitive building on light
density lines.

16059

158 Map C - Eastern Canada: Effect
of competitive building on heavy
density lines.

16059

159 Map D - Western Canada: Effect
of competitive building on heavy
density lines.

16059



1
2 attached to the Commission respecting
3 paragraph (d).'

4 Paragraph (d) of the Commission's terms of
5 reference requires it to consider and report
6 the question as to:

7 'Whether and to what extent the Railway
8 Act should specify what assets and
9 earnings of railway companies in busi-
10 nesses and investments other than
11 railways should be taken into account
12 in establishing freight rates.'

13 As counsel for the motion were advised by the
14 Secretary of the Commission by letter dated
15 August 19, 1960, the Commission, through its
16 research consultants, has been and is conducting
17 an intensive study of the matters referred to
18 in clause (d) of its terms of reference. The
19 Commission is satisfied that in this way it
20 will obtain all the information necessary to
21 deal with clause (d) of the terms of reference,
22 and the motion is accordingly denied."

23 THE CHAIRMAN: Now, we have the objection
24 of Mr. Sinclair yesterday to evidence submitted by Mr.
25 MacKimmie, and the Commission this morning has ruled, not
26 unanimously, that the evidence should not be received at
27 this time, but be part of Volume II.

28 MR. MacKIMMIE: Do I take it, then, Mr.
29 Chairman, that those portions of the study following the
30 portion of the text referred as "Station Costs" to the



1
2 end of the presentation be left until Volume II is
3 presented?

4 THE CHAIRMAN: Yes.

5 MR. MacKIMMIE: That being so, that completes
6 what we can give the Commission at this time. We will
7 continue the remainder of the text and presentation of
8 this volume when Volume II is presented. That means,
9 sir, for the purposes of the record it will be Station
10 Costs, The Deficit Exists, Deficits on the C.P.R.,
11 C.N.R. Passenger Deficit, Sources of the Deficit,
12 Commuters' Service, Head-End Traffic, Conclusions on
13 Passenger Deficits, the complete portion of Chapter IX
14 entitled "Small Shipments", Chapter X, "Competitive
15 Rates," Chapter XI, "Statutory Grain," and Chapter XII,
16 "Conclusions".

17 Mr. Saunders calls to my attention there is
18 nothing at all in Chapter X on competitive rates, but I
19 think to give some continuity to the study with your
20 permission, sir, I would like to leave the entire balance
21 for presentation at the time of Volume II.

22 THE CHAIRMAN: That is all right.

23 MR. MacKIMMIE: I would like to know, sir, if
24 the Secretary and the Commission, in setting forth their
25 further inquiry with respect to the presentation of the
26 grain organizations I represent, would give some considera-
27 tion that Mr. Saunders might give the balance of Volume I,
28 all of Volume II, and his cross-examination all at one
29 time, if that is convenient to the Commission, so it
30 would save coming back and forth, sir.



1
2 THE CHAIRMAN: I think that would be convenient.

3 MR. MacKIMMIE: I am only asking that considera
4 tion be given to it, sir, and the Secretary might let me
5 know.

6 THE CHAIRMAN: Is there any disagreement with
7 that?

8 MR. SINCLAIR: Well, on behalf of the Canadian
9 Pacific, sir, we, of course, would try to meet that, but
10 when we see Volume II -- and only when we see it will
11 we know how much work we have to do. It may be from
12 the time it is filed and the time it is presented it
13 may be sufficient to do the necessary analysis ---

14 THE CHAIRMAN: We do not want to bring the
15 witness back and back and back; do we?

16 MR. SINCLAIR: Of course not, sir. When
17 we see it, if we can we will make every effort to do
18 that.

19 MR. MacKIMMIE: That doesn't help.

20 THE CHAIRMAN: Volume II will be in by
21 October 15th?

22 MR. MacKIMMIE: October 15th, sir, and all
23 I say to my learned friend is I don't care how long he
24 takes -- he can take ten years -- as long as the witness
25 just comes back once.

26 THE CHAIRMAN: Well, not ten years.

27 MR. MacKIMMIE: No, but I just don't under-
28 stand the point, sir. He may have all the time he likes,
29 let me put it that way, so long as it is all done at the
30 one time. I don't think it is necessary, in view of



1
2 what has happened yesterday and today, I don't think
3 it is necessary to bring us back and then bring us
4 back again. After all, Calgary and Washington are
5 some distance from Ottawa.

6 Thank you, Mr. Chairman.

7 THE CHAIRMAN: Thank you, Mr. MacKimmie.

8 I think Mr. Stechishin is next.

9 MR. STECHISHIN: I have no counsel.

10 MR. FRAWLEY: It was understood that we would
11 not begin Mr. Stechishin's cross-examination until
12 Wednesday. I asked that particularly on Friday. I am
13 not prepared, and I think I am next to question Mr.
14 Stechishin. I have none of my material here, and I
15 had a clear understanding about that.

16 THE CHAIRMAN: Well, that being so the
17 Commission will adjourn and we will go into a private
18 conference.

19 The Commission is adjourned until ten o'clock
20 tomorrow morning when Mr. Stechishin will be up.

21
22 Adjournment.
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24
25
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30



ROYAL COMMISSION ON TRANSPORTATION

Proceedings of hearings held
in the Court Room, Board of
Transport Commissioners Offices,
Ottawa, Ontario, on the 28th
day of September, 1960.

COMMISSION

Mr. M. A. MacPherson, Q.C.	Chairman
Mr. H. Anscomb	Member
Mr. A. H. Balch	Member
Mr. R. Gobeil	Member
Mr. H. A. Mann	Member
Mr. A. Platt	Member

COMMISSION COUNSEL

Mr. A. G. Cooper, Q.C.	
Mr. G. S. Cumming	
Mr. H. W. Ellicott	Adviser
Mr. F. W. Anderson	Secretary
Major N. Lafrance	Assistant Secretary



Ottawa, Ontario,
Wednesday,
September 28, 1960

---On commencing at 10.00 a.m.

THE CHAIRMAN: Order, please.

MR. MAURO: Mr. Chairman, just before the cross-examination proceeds, I notice in the Montreal Gazette of yesterday morning an article by the Canadian Press concerning the Commission entitled "Won't Ask Non-Rail Earnings." There is a particular paragraph in that article:

"Since Manitoba lawyer Arthur Mauro was absent from the hearing, the commission adjourned its public session until tomorrow to resume cross-examination of Manitoba's main case on transportation troubles."

THE CHAIRMAN: There is no problem there, Mr. Mauro.

MR. MAURO: I just want to make it clear on the record that I was ready, willing and able to go on yesterday.

THE CHAIRMAN: Yes.

Mr. Frawley?



V. M. STECHISHIN, recalled

CROSS-EXAMINATION BY MR. FRAWLEY:

Q. Mr. Stechishin, somewhere in your brief you were referring to the bridge subsidy, and you made the statement -- I suppose it is better to give you the very words -- paragraph 251, page 117:

"On May 11, 1950, the Board issued an ex parte order deleting from the exception to the bridge subsidy the following: coal from Alberta and Eastern British Columbia to Ontario that is subject to subsidized freight rates."

Now, Mr. Stechishin, you are referring to General Order -- in fact, your footnote indicates you are referring to General Order 861, which is an order of the Board dated Wednesday, the 11th of May, 1960, and which does just what you said it did:

"General Order 833, dated July 3, 1958 as amended by General Order No. 853, dated November 16th, 1959, is further amended by deleting from numbered paragraph 3 the following:

"(11) Coal from Alberta and eastern British Columbia to Ontario that is subject to subsidized freight rates;"

Now, Mr. Stechishin, all I want to call your attention to is your statement, your implication, that this was ex parte or without notice. All I want to do is to



1
2 call your attention to a letter which was written to
3 me by the Secretary of the Transport Board dated 28th
4 of October, 1959. I have had a photostat copy made
5 of this letter, and I would file it, sir.

6 It is addressed to me, and reads as follows:

7 " October 28, 1959

8 "Mr. J. J. Frawley, Q.C.,
9 502 Victoria Building,
10 Wellington Street,
11 Ottawa, Ontario.

12 Dear Sir:

13 "File No. 45464.1 - re Application
14 of the Province of Alberta and the Coal Operators
15 Association of western Canada for an extension
16 of the benefit of the bridge subsidy to coal
17 shipped to Ontario from Alberta and south-
18 eastern British Columbia -- General Order 833.

19 "Reference is made to your letter
20 dated September 10th, in connection with the
21 above noted matter.

22 "I now wish to advise you that by
23 direction of the Board a copy of your letter of
24 April 23rd has now been forwarded to the
25 following and their submissions requested:

26 Mr. C. W. Brazier, Q.C., Counsel for the
27 Province of British Columbia, Burrard
28 Building, 1030 West Georgia Street,
29 Vancouver 5, B.C.

30 Mr. J. Jardine, General Manager, Ontario
Northland Railway Company, North Bay, Ontario.



1
2 Mr. W. E. Uren, Chairman, Dominion Coal
3 Board, Administration Building, Mines and
4 Technical Surveys, Booth Street, Ottawa,
5 Ontario.

6 Secretary, Maritime Transportation Commission,
7 P. O. Box 577, Moncton, N.B.

8 Mr. Rand H. Matheson, Director of Traffic and
9 Transportation, Dominion Steel and Coal
10 Corporation, Canada Cement Building,
11 Montreal, P.Q.

12 Mr. K. D. M. Spence, Q.C., Commission Counsel,
13 Canadian Pacific Railway Company, Montreal,
14 P.Q.

15 Mr. J. W. G. Macdougall, Q.C., Commission
16 Counsel, Canadian National Railways, Montreal,
17 P.Q.

18 "When replies are received I will advise
19 you further as to the action to be taken with
20 respect to your application.

21 "Yours very truly,

22 "C.W.R."

23 Secretary,
24 C. W. Rump"

25 THE CHAIRMAN: You want it taken in or filed?

26 MR. FRAWLEY: Well I suppose the easiest
27 thing is to just incorporate it into the transcript.
28 Mr. Mauro says " Any notification to Manitoba."
29 I thought Manitoba only just had some oil out near
30 Verdun; they didn't have any coal to speak of.



1
2 In any event, Mr. Stechishin, it certainly
3 was ex parte as far as the Province of Manitoba is
4 concerned, but in all circumstances that was the kind
5 of notice the Board decided to give, and I don't know
6 even what replies they received. I can put it to you
7 that having waited for some time after that letter was
8 written, then further conferences were held and the
9 order was amended as I have indicated.

10 I only want to put that on the record, not to
11 enter into any controversy about it at all but merely to
12 protect the good name of the Board that they were not making
13 what could be called ex parte orders.

14 THE CHAIRMAN: And to tell the facts?

15 MR. FRAWLEY: And the record will show that
16 everybody interested in the movement of that coal was,
17 as I view it, notified.

18 Q. Now, Mr. Stechishin, I think probably
19 I would like to discuss with you first what you have to
20 say about the rates from eastern Canada to western
21 Canada, and just so that I will understand it I will put
22 this to you, as I understand it, and you can correct
23 me if I am wrong. In the first place, you quarrel
24 with the present practice which permits package freighters
25 to obtain increases in their rates at the time of
26 each revenue case, each application of the railways for
27 an increase, without having proved any financial need.
28 That is one of your principal quarrels; isn't it?

29 MR. STECHISHIN: Yes, that is correct.

30 Q. They get what has been colloquially,



1
2 perhaps, described as a free ride along with the rail-
3 ways. After the railways have established financial
4 need and a horizontal percentage increase is authorized
5 to implement that need, the package freighters without
6 having proved any financial need find their rates
7 increased?

8 MR. STECHISHIN: That is correct, sir.

9 Q. And they are increased in such a fashion
10 that they continue the traditional differential below
11 the rail rates ?

12 MR. STECHISHIN: That is right.

13 Q. And you feel that unless and until the
14 package freighters show financial need that their rates
15 should remain without the automatic increases?

16 MR. STECHISHIN: I do not think they should
17 be tied to the rail rates, Mr. Frawley.

18 Q. Yes. Now, that is the one position
19 you take. I think perhaps there is a more serious one,
20 if I also understand you. I put it this way. For
21 many years, Mr. Stechishin, the rate from a point in
22 eastern Canada to a point in western Canada was made up
23 of two factors. The first factor was, and it was
24 called an arbitrary, an amount to Fort William; it was
25 an amount from the origin in eastern Canada to Fort
26 William. So far is that correct?

27 MR. STECHISHIN: You are speaking of the all-
28 rail rate?

29 Q. The all-rail rate, yes.

30 MR. STECHISHIN: That is right, sir.

Q. And then to that arbitrary factor, you



1
2 might call it, to the arbitrary there was added the
3 full class rate from Fort William to destination in
4 western Canada?

5 MR. STECHISHIN: Not necessarily the full
6 class rate, Mr. Frawley. It could also have been a
7 commodity rate.

8 Q. I was thinking of the class rates, to
9 start with?

10 MR. STECHISHIN: Yes, that is right.

11 Q. And then in addition to that for many
12 years there has been what has been known as the
13 fictitious mileage and ---

14 COMMISSIONER MANN: Constructive?

15 MR. FRAWLEY: Q. That's the word I was
16 thinking of. There was a constructive mileage between
17 the lakehead and Winnipeg which very materially reduced
18 the mileage for freight rate purposes?

19 MR. STECHISHIN: Well, Mr. Frawley, I prefer
20 to regard that western portion to Winnipeg as the com-
21 petitive rate to Duluth, rather than a fictitious
22 constructive mileage. The competitive rate happened
23 to reflect the mileage. It wasn't the actual mileage.
24 You have the situation today in Canada where the rates
25 from eastern Canadian points to the Atlantic seaboard
26 are based on the rates to New York.

27 If you relate that resulting rate to the mileage,
28 you could then say there is constructive or fictitious
29 mileage to Halifax, Saint John, Quebec or Montreal. The
30 origin is the same in both cases.



1
2 Q. It was all threshed out before the first
3 Royal Commission on Transportation?

4 MR. STECHISHIN: Well, I won't quite agree
5 with that, sir. It was discussed.

6 Q. Well, at page 112 of the report of the
7 first Turgeon Commission, I find this:

8 "The complaints and suggestions may be
9 summarized as follows:

- 10 1. That in constructing a new uniform rate
11 scale for the whole of Canada, the taper-
12 ing of the class rates which exists in
13 western Canada is preferable to the taper-
14 ing of class rates in eastern Canada.
- 15 2. That the class rates on traffic moving
16 between western and eastern Canada have a
17 distorted scale of tapering, with the result
18 that these through rates are higher than
19 if the tapering now used locally in western
20 Canada were extended through to the east.
- 21 3. Saskatchewan and Alberta complained that the
22 'terminal' class rates between those provinces
23 and the head of the lakes on both eastbound
24 and westbound traffic do not taper off as
25 rapidly as between Manitoba and the head of
26 the lakes.
- 27 4. The western provinces complained that some
28 'commodity' rates do not taper sufficiently
29 as distance increases."

30 I will put it to you very simply, Mr. Stechishin. The



1
2 introduction of a minimum scale of class rates by the
3 Board of Transport Commissioners effective March 1, 1955,
4 eliminated the constructive mileage we have been speaking
5 of and eliminated the method of fixing freight rates
6 from eastern Canada to western Canada by the use of the
7 Fort William artery?

8 MR. STECHISHIN: The equalized scale pub-
9 lished by the Board.

10 Q. The equalized scale did that, I say?

11 MR. STECHISHIN: Yes, it did that.

12 Q. And I put it to you that that particular
13 determination by the Transport Board could very well be
14 called the corner stone of the equalization introduced
15 by the Transport Board?

16 MR. STECHISHIN: In so far as it applied to
17 non-competitive rates, yes, Mr. Frawley, that is correct,
18 but the Railway Act specifically in dealing with the
19 national policy exempts competitive rates from equaliza-
20 tion and our contention was and has been, and is, I say,
21 that the rates between eastern and western Canada --
22 the lake and rail rates, as opposed to the all-rail
23 rates -- certainly should reflect a competitive factor.

24 Q. In any event, I suggest to you that if
25 you were going to disturb the principle of rate making
26 between western Canada and eastern Canada as laid down
27 in the equalization judgment that you would be seriously
28 disturbing the equalization that has been now brought
29 into effect in Canada.

30 MR. STECHISHIN: Well, Mr. Frawley, we are



1
2 not suggesting for a moment that the equalized class
3 rate scale should be changed. We are merely saying
4 that competition that does exist in the rate structure
5 should continue to be reflected by means of competitive
6 rates. This equalized class rate scale may be and
7 should remain, probably, as a ceiling rate.

8 Q. I have no quarrel with anybody's desire
9 to make competition be reflected in the making of rates,
10 but if that is all you are endeavouring to do, I
11 certainly have no quarrel. I fought for many years
12 for equalization, and I certainly would not want to see
13 that very considerable achievement just crumbled away
14 by a disturbing of the method of determining the all-
15 rail rate between eastern Canada and western Canada.

16 Now, you have, you are telling us now, no
17 desire to disturb the class scale as it now exists?

18 MR. STECHISHIN: The non-competitive class
19 rate scale, that is right.

20 Q. A non-competitive class rate scale?

21 MR. STECHISHIN: Yes.

22 Q. I am not too sure that I understand that
23 particular terminology.

24 COMMISSIONER MANN: Mr. Stechishin, do you
25 mean the all-rail rates, all-rail class rates, between
26 eastern and western Canada when you talk about non-
27 competitive class rates?

28 MR. STECHISHIN: There is nothing contained
29 in the rates which suggest that the all-rail rate
30 between eastern and western Canada should be changed.



1
2 We are asking about the lake and rail rates, and that is
3 as far as we go in the brief.

4 COMMISSIONER MANN: You would, then, I suppose,
5 disturb the class rate structure in so far as it relates
6 to rail, lake, or lake and rail class rated traffic?
7 As far as that is concerned?

8 MR. STECHISHIN: We are suggesting that lake
9 and rail rates should be just what the name is -- lake
10 and rail rates, and not a direct relationship to all-
11 rail rates. We think the two are divorced. There
12 are two different factors governing the setting of each
13 rate and they should be reflected in the resulting rate.

14 COMMISSIONER MANN: Your view is, then, that
15 any class rates which apply on lake and rail or rail
16 and lake traffic are not really competitive rates
17 but should possibly be in the classification of com-
18 petitive rates?

19 MR. STECHISHIN: Well, that would be a matter
20 for the railways to decide -- whether or not they want
21 the all-rail rate then to reflect the competition.
22 If they choose not to, then, of course, it is a non-
23 competitive rate.

24 THE CHAIRMAN: Do you object to the automatic
25 feature?

26 MR. STECHISHIN: That is right, sir.

27 MR. FRAWLEY: Q. Let me call your attention,
28 Mr. Stechishin, to this passage of page 30 of the
29 Judgment of the Board in the Equalization Case. I
30 find it in 44 J.O.R. & R., Part 24-A, pamphlet Part 24-A.



1
2 "Both railways agreed that the mileage
3 rates should be applied through between
4 eastern and western Canada, thus dispensing
5 with the present method of making rates by
6 means of basing arbitraries to Fort William
7 plus the local rates beyond. The elimination
8 of the present method is in accordance with
9 the recommendation of the Royal Commission
10 on Transportation."

11 Now, that was, as the Board says, the basic recommen-
12 dation of the Royal Commission which was implemented
13 by parliament, and then put into effect by the Transport
14 Board in this Equalization Judgment which became
15 effective in March, 1955.

16 MR. STECHISHIN: There is no reference in
17 the report of the Turgeon Commission to lake and rail
18 rates, Mr. Frawley. They are speaking of all-rail rates.
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2 Q. Yes. Well, I think it was worthwhile
3 discussing with you. At the moment, Mr. Stechishin,
4 what is the relationship between the class rate
5 scale that is now in effect, the uniform scale of
6 class rates and the lake and rail class rates?

7 MR. STECHISHIN: Well, I am a little confused there,
8 Mr. Frawley, because in that same judgment the Board
9 prescribed between Vancouver and Vancouver Island
10 a two for one basis.

11 Q. That is an exception?

12 MR. STECHISHIN: Well, there seems to be
13 an exception everywhere as far as Manitoba traffic
14 is concerned in that judgment.

15 Q. Well, we will give a little thought
16 to that. Mr. Stechishin, Calgary and Edmonton used
17 to enjoy the same class rate from eastern to western
18 Canada?

19 MR. STECHISHIN: Might I explain why?

20 Q. Yes.

21 MR. STECHISHIN: Because they enter into
22 the same mileage block from Fort William, which is
23 the basis for making the rates under the old system.
24 Under the equalized scale Edmonton now gets this
25 rate over Armstrong which is not anywhere near the
26 Great Lakes.

27 Q. Perhaps this is only the use of a
28 word, but I put it to you that the result of the
29 uniform class rate scale is to make Calgary pay more
30 than Edmonton on a shipment from, say, Toronto.



1
2 MR. STECHISHIN: And I think it is
3 unreasonable, because Calgary and Edmonton by lake
4 and rail are the same mileage and yet have different
5 rates.

6 Q. And the whole of Ontario being taken
7 care of by groups A and B, you felt that Manitoba
8 was the only one that didn't receive any concession?

9 MR. STECHISHIN: Yes.

10 Q. I suppose there is a difficulty when
11 you are looking at Calgary and Edmonton in the fact
12 that Calgary has to pay more than Edmonton by a few
13 cents, and when you turn and look westward to British
14 Columbia you find that because Edmonton is 760 miles
15 from Vancouver and Calgary is 641 miles, Calgary has
16 a considerable advantage over Edmonton on traffic
17 moving on the west coast?

18 MR. STECHISHIN: I was talking about lake
19 and rail rates. There are no lake and rail rates
20 from Calgary or Edmonton.

21 Q. What is the relationship now between
22 the class rates from eastern Canada to western Canada
23 and the lake and rail rates from eastern Canada to
24 western Canada?

25 MR. STECHISHIN: I am sorry ---

26 Q. Are those two rates related, the
27 class rate from Toronto to Winnipeg or the class
28 rate ---

29 MR. STECHISHIN: Are they related?

30 Q. Yes?



1
2 MR. STECHISHIN: Very much so, at the
3 present time.

4 Q. What is the relationship between them?

5 MR. STECHISHIN: Differential.

6 Q. And that is what you want to get rid
7 of?

8 MR. STECHISHIN: I don't know that I want
9 to say I want to get rid of it. There is always
10 a differential, and we are arguing against the basis
11 of the differential. It is in our brief.

12 "Firstly; that water carriers be
13 required to apply and show cause for
14 any proposed rate increases, and that
15 in such applications the rates be
16 established on the financial requirements
17 of the water carriers without reference
18 to the rates of other modes of
19 transportation."

20 --in this case with regard to rail.

21 Q. If that were done you would have a
22 greater disparity now between the water rates and the
23 rail rates?

24 MR. STECHISHIN: Not necessarily. The
25 railways may decide to put in a competitive rate by
26 all-rail to meet that situation. I would like to
27 read this.

28 "Secondly: that the through rate
29 on a shipment carried by more than one
30 type of carrier should reflect the relative



1
2 rate characteristics of each type of
3 carrier to the extent that each has
4 participated in that movement."

5 I think that sums it up completely, what
6 we are asking for here in this section.

7 Q. Mr. Stechishin, it may be that I
8 have no cause for alarm, but I am very much concerned
9 that there should be any return to the use of what has
10 been called the Fort William arbitrary in the making
11 of rates between eastern and western Canada, and I
12 just want to ask you again whether or not, if your
13 suggestion were accepted and acted upon, there would
14 be any reversion to the old way of making rates between
15 eastern and western Canada by that two-factor method,
16 namely, an arbitrary or a rate from Toronto to Fort
17 William plus the local rates, to use the Board's
18 expression, beyond.

19 MR. STECHISHIN: Not necessarily. The
20 railways could quite conceivably say we will charge
21 by all rail the through Calgary rate plus some
22 differential which the railways feel is necessary,
23 warranted by the circumstances offered.

24 Q. Would your recommendation lead to
25 a return or mean a return to that method of constructing
26 rates between eastern and western Canada, namely, a
27 rate to Fort William, good rate or not, and then the
28 commencement of another rate with a new rate of taper
29 to Fort William with its destination in Edmonton or
30 Calgary? You have worked with this for a long time,



1
2 and I am just endeavoring to understand what you are
3 putting to the Commission and I just want to know
4 if it would mean a return to that situation in what
5 you recommend?

6 MR. STECHISHIN: I would say not necessarily.

7 Q. I put it to you that we should not
8 have any return to the position ---

9 MR. MAURO: Mr. Chairman, I am enjoying the
10 discussion, too, but this started out with a discussion
11 on Manitoba's lake and rail position, and all Manitoba
12 is putting forward in this situation is ---

13 THE CHAIRMAN: Of course, Mr. Stechishin
14 is an expert, and Mr. Frawley is too.

15 MR. MAURO: But he has answered that he
16 doesn't feel the adoption of this recommendation will
17 necessarily lead to that situation.

18 MR. FRAWLEY: I have had for many years a
19 very considerable regard for Mr. Stechishin's competence
20 when he is looking into the rate structure, and all
21 I am asking is that I think, notwithstanding my friend's
22 interruption, he has left his answer a little
23 unsatisfactory; because I am not here to quarrel with
24 you about your brief, but I do want to understand,
25 I want the Commission to understand. After all, there
26 is nothing sacrosanct about what the first Royal
27 Commission did or what Parliament did.

28 Q. I put it to you -- I want the
29 Commission to understand what you want the Commission
30 to do -- I suggest you would be pulling down



1
2 equalization as we now have it in the Canadian freight
3 rate structure and that would be disturbing. When
4 you say that your proposal would not necessarily mean
5 a return to the old way of making rates over Fort
6 William, saying "not necessarily" means it may or may
7 not. Is that what you are saying?

8 MR. STECHISHIN: I can't begin to put
9 myself in the position of what the railways will do
10 when faced with a certain situation. I do know
11 that when lake and rail competition exists the
12 railways in the United States meet it by different
13 methods, depending on the circumstances. I don't
14 know what they are going to do here and I can't say
15 they will do this or will do that.

16 COMMISSIONER MANN: Would I be right
17 in my understanding of this that you feel that with
18 the adoption of your proposal the present equalized
19 class rate scale on eastern to western or western
20 to eastern traffic will remain, there is no tampering
21 with that, but the railways, if your proposal were
22 given effect, might well have to put in all-rail
23 rates which are competitive and therefore would likely
24 be under the equalized class rate scale. Is my
25 understanding correct?

26 MR. STECHISHIN: The railways put in all-
27 rail competitive rates from eastern points to the
28 west coast. It would be exactly the same situation.

29 COMMISSIONER MANN: You would have two
30 series of class rates on eastern and western traffic,



1
2 the equalized class rate scale traffic and this new
3 type of competitive class rate traffic.

4 MR. STECHISHIN: Well, that is, of course,
5 based on the assumption if the railways decide to do
6 that.

7 COMMISSIONER MANN: That takes me one
8 step further. If such a competitive all-rail class
9 rate were put into effect it would mean a competitive
10 rate not subject to the bridge subsidy. Would that
11 be correct?

12 MR. STECHISHIN: Under the present wording
13 of the bridge subsidy, that would be correct, yes.
14 However, the Board did put in this A and B grouping
15 which, as far as I can see, is competitive rates and
16 they made them subject to the bridge subsidy. So
17 I would not want to say that this would necessarily
18 follow. It might not.

19 COMMISSIONER MANN: If a class rate system
20 which is competitive should emerge from your proposal,
21 then would that, because it is a competitive class
22 rate system, not be thrown out of the bridge subsidy
23 altogether?

24 MR. STECHISHIN: Well, I see no more
25 reason for throwing it out than you would throw out
26 A and B groups. However, I think it might clear
27 some of this up if I were to read paragraphs 142 and
28 143, on page 62 of the brief. Paragraph 142
29 reads:
30



1
2 "142. Despite the fact that the
3 railways testified that the water competition
4 was equally pervasive in 1953, the Board of
5 Transport Commissioners in promulgating
6 the equalized class rate scale recognized
7 this competitive in a most peculiar manner.
8 The rate from Toronto to Fort William is
9 now 100 per cent of the rate from Fort
10 William to Moose Jaw..."

11 - which is equivalent mileage -

12 "and not 39 per cent below as it was the
13 day before the order was issued. This
14 would suggest that the Board of Transport
15 Commissioners had decided competition no
16 longer existed. However, the Board also
17 ruled that groups A and B which owed their
18 existence to water competition should
19 remain intact but in an amended form. Thus
20 in the one order, the Board of Transport
21 Commissioners denied to western shippers
22 the primary benefit of competition in the
23 form of lower rates, and preserved for all
24 eastern shippers outside Toronto the benefit
25 of competition in the form of parity of
26 rates."

27 And then in paragraph 143:

28 "Having apparently concluded that
29 competition should no longer affect the
30 rail factor to Fort William, at least from



1 Toronto, the Board abolished the basis of
2 using one factor to the Lakehead and another
3 beyond, and substituted therefor a single
4 factor through rate based on the rail
5 mileage from Toronto. This in itself
6 is not subject to criticism if the purpose
7 was to establish a 'ceiling' rate not
8 reflecting competition. However, having
9 established the ceiling, the Board of
10 Transport Commissioners then prescribed
11 that the lake and rail rate should be
12 determined by deducting differentials from
13 this ceiling. Since certain Canadian
14 National Railway routes are determined by
15 using the mileage via Armstrong, the lake
16 and rail rate, perforce, is determined over
17 an inland route."

18 - and that would explain the elimination of parity of
19 Calgary and Edmonton.

20 COMMISSIONER GOBEIL: Mr. Frawley asked
21 you before, if your first recommendation on page 66
22 were applied, would that not increase the differential.
23 You said not necessarily; it might be less by
24 applying a competitive rate. Is that what you said?

25 MR. STECHISHIN: Yes.

26 COMMISSIONER GOBEIL: But if they do that
27 would that not be in opposition to your second
28 proposal where you say the through rate shall reflect
29 the rate of both carriers?
30



1
2 MR. STECHISHIN: No, because in the first
3 proposal the discussion there was on the matter of all
4 rail rate from eastern to western Canada which would
5 then reflect the competition. The second one merely
6 says if there is a lake and rail carrier the rates
7 over the two carriers should reflect the difference
8 that each carrier has moved and the characteristics
9 of each one of the two carriers. The same
10 condition of the second recommendation would apply
11 to water and truck.

12 MR. FRAWLEY Q: Your paragraph 143 clears
13 this up for me. You say in paragraph 143, starting
14 in the second line:

15 "...the Board abolished the basis
16 of using one factor to the Lakehead and
17 another beyond, and substituted therefor
18 a single factor through rate based on the
19 rail mileage from Toronto."

20 Now, do I understand you to say that --
21 and then you go on to say:

22 "This in itself is not subject to
23 criticism if the purpose was to establish
24 a 'ceiling' rate not reflecting competition."

25 Are you satisfied to continue the rate
26 making method which you describe in that paragraph and
27 which we find in the equalized class rate scale
28 judgment?

29 MR. STECHISHIN: Yes, Mr. Frawley. I
30 would like to come back to your report on the Turgeon



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2 Commission, at page 112, if I may. You were referring
3 there to the rate of taper in the freight rate structure,
4 and I think this is where the Turgeon Commission made
5 a mistake. The complaint was not as to the rate of
6 taper but the mileage. I think that was overlooked
7 by the Turgeon Commission.

8 Q. What we were complaining about was
9 that every shipment from Toronto to Calgary or Regina
10 or Saskatchewan or Winnipeg for that matter was
11 constructed of a fixed amount to Fort William and
12 then a new rate progression commenced?

13 MR. STECHISHIN: Yes.

14 Q. And we said that is just as wrong.
15 In the case of farm machinery, it goes to the Canada-
16 American border and then it takes a class rate beyond.
17 It is taken there and then it goes to its destination
18 in western Canada which means that a new rate and
19 new rate of taper is applied.

20 MR. STECHISHIN: That is the situation
21 in regard to the border situation, but it is also the
22 physical situation as to farm machinery with regard
23 to lake and rail movements between eastern and western
24 Canada.

25 Q. The point I am concerned about is
26 that the evil of that situation will not be visited
27 upon the freight rate structure, and you have given me
28 your assurance that as far as class rates from eastern
29 to western Canada you are content to abide by what
30 the Board did in prescribing the equalized class



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1
2 rate scale.

3 MR. STECHISHIN: I can't admit it is
4 an evil as far as the lake and rail are concerned.
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2 Q. I was trying to take it piece by piece.
3 You are satisfied, then, to continue to live with,
4 without objection, the equalized class rate scale in
5 so far as the all-rail movements are concerned?

6 THE CHAIRMAN: He is not asking for the
7 restoration of constructive mileage.

8 MR. SINCLAIR: With respect, I think Mr.
9 Frawley is quite right in asking this witness what the
10 effect of his recommendation will be.

11 MR. MAURO: That has been gone into at least
12 six times and Mr. Frawley says, "I am satisfied with
13 paragraph 143." I wonder now why the additional ques-
14 tions.

15 MR. FRAWLEY: I said that I hoped it was
16 clear.

17 THE CHAIRMAN: Well, try to get it down to a
18 question.

19 MR. FRAWLEY: Q. If you will just consider
20 with me for a moment, first, the all-rail rates, and may
21 I take it that you are satisfied with what the Board
22 has done in the equalized class rate scale in so far as
23 the all-rail rates are concerned?

24 MR. STECHISHIN: Again, I come back to
25 paragraph 143:

26 "This in itself is not subject to criti-
27 cism if the purpose was to establish a
28 'ceiling' rate not reflecting competition."
29 I won't go any further than that. It is not subject
30 to criticism, if that is the purpose.



1
2 Q. Well, to what extent are you not satisfied
3 with an all-rail rate today from Toronto to Winnipeg
4 being a single factor through rate based on the mileage
5 from Toronto to Winnipeg?

6 MR. STECHISHIN: Nowhere have we criticized
7 the single factor all-rail through rate between eastern
8 Canada and western Canada.

9 Q. Well, where you do have the criticism,
10 then, is that the lake and rail rate is geared to this
11 single factor rate, to which you take no exception,
12 and geared to it in a fashion that you do take very
13 definite exception to?

14 MR. STECHISHIN: Very strongly, yes.

15 Q. And the basic idea there is that, by and
16 large, you would expect that those package freighter
17 rates would be lower if they hadn't got these series
18 of automatic increases over the years as the railway
19 got?

20 MR. STECHISHIN: I think that our tables
21 make that quite clear -- substantially lower.

22 Q. Well, you agree with me on that. Then,
23 your problem is -- and you think that if your pro-
24 posal were accepted the railways might then because
25 of the force of competition, and assuming for the
26 moment that the lake rate -- freighter rate -- was
27 considerably lower without being able to justify a
28 financial need -- we will assume they would be lower,
29 and you say the railways would be forced to make some
30 exceptions to that single factor class rate in view of



1
2 the fact that the lake rate would be lower: is that
3 what you are saying?

4 MR. STECHISHIN: I haven't said so any place.

5 Q. Well, what is this that you told me about
6 a moment ago, that the railways might be faced with a
7 situation with which they would have to deal by way of
8 rate reductions to meet the more effective competition?

9 MR. STECHISHIN: That would entirely depend
10 on the resulting lake and rail level of rates after
11 this proposal is put into effect, if it is. It might
12 be even a smaller differential than we have today, and
13 it might be greater. How much greater it would have
14 to be before the railways would be compelled to reduce
15 their all-rate rates, I have no way of knowing.

16 Q. Would you say, as far as you are concerned,
17 nothing but good would follow from making the lake rates
18 reflect their own cost situations instead of going
19 along automatically with the railways' cost situations?

20 MR. STECHISHIN: I don't recall making that
21 statement, that nothing but good would come of it.

22 Q. Oh, no, but you would be satisfied --
23 you think it would be a better situation if the lake
24 rates were more responsive to their financial need
25 rather than being responsive to the railways?

26 MR. STECHISHIN: I would like to read in
27 again paragraph 144 now:

28 "The evidence shows that when the rates
29 reflected competition, that competition
30 was felt at all points west of the lakehead



1
2 in the same amount. When the competition
3 lessened, the increase in rates was also
4 the same amount at each point."

5 Q. Well, I just want to be clear, Mr.
6 Stechishin. I put it to you this way, and I put it
7 in the form of a question: I put it to you that if you
8 restore the basing Fort William arbitrary in the
9 construction of the rates between eastern Canada and
10 western Canada -- and I am not speaking at all about
11 the constructive mileage, because there is no applica-
12 tion here the Board should recommend that -- you people
13 are not asking for that?

14 MR. STECHISHIN: No, sir, we haven't asked
15 for that.

16 Q. But if there is any return to the using
17 of the basing arbitrary in the construction of rates
18 from eastern Canada to western Canada, I say that it
19 would pull down the equalized class rate scale as we
20 now have it promulgated by the Board -- the all-rail
21 class rate scale as we now have it from the Board:
22 do you not agree with that?

23 MR. STECHISHIN: No more so than any other
24 competitive situation.

25 Q. Well, I thought you told me a moment
26 ago that you were not seeking to return to the basing
27 arbitrary as a factor in the rate making between eastern
28 Canada and western Canada?

29 MR. STECHISHIN: We are speaking here again,
30 I must repeat, only about lake and rail rates, and it



1
2 seems to us illogical to construct lake and rail rates
3 any other way than by the lake factor and the rail
4 factor.

5 Q. Well, let them find their own level. I
6 am concerned with what I regard as the cornerstone of
7 the equalized class rate scale, and that is the way they
8 are constructed now by using single factor mileage from
9 Toronto to western Canada, and you do not seek to inter-
10 fere with that?

11 MR. STECHISHIN: No, not at all do we want
12 to interfere with it.

13 Q. As far as the bridge subsidy is concerned,
14 you recall very well there was a contest before the
15 Board at the time that formula was prescribed, which
16 was a fifty-fifty compromise taking half of what British
17 Columbia and Alberta suggested and half of what Manitoba
18 suggested: that is right, isn't it?

19 MR. STECHISHIN: Yes, I was there at the time.

20 Q. British Columbia and Alberta said to the
21 Board, "When our rates are being increased they go up
22 by horizontal percentage increases, and now that there
23 is to be a reduction in the rates we think that the same
24 procedure should be followed." As you recall, stated
25 very simply, that was our position?

26 MR. STECHISHIN: That is correct.

27 Q. And Manitoba said, "No, it should not
28 have any percentage in it at all. These reductions
29 resulting from the bridge subsidy should be reduced by
30 so many cents per 100 pounds"?



1
2 MR. STECHISHIN: I think that is right in
3 the brief at paragraph 249.

4 Q. Well, now, you are now suggesting that
5 this Commission recommend that by legislation or other-
6 wise you go back to what was proposed to the Board
7 at the time the formula was being worked out?

8 MR. STECHISHIN: I think the Board made a
9 mistake in that particular case, yes. I think it mis-
10 interpreted what the purpose of the bridge subsidy
11 was. Increase cases are generally based on an in-
12 crease being sustained right along the entire line
13 of movement. The bridge subsidy referred to a specific
14 piece of track.

15 Q. And the Transport Board has a large
16 measure of discretion in the way in which they fix
17 the reductions prescribed by Section 468 of The Railway
18 Act?

19 MR. STECHISHIN: Oh, they have tremendous
20 discretion, yes.

21 Q. You people have never gone back to them
22 asking them to vary the methods used?

23 THE CHAIRMAN: Mr. Stechishin is just being
24 consistent, I think.

25 MR. STECHISHIN: I think so. I might also
26 mention these anomalies we point out here, I don't think
27 they were foreseen at the time of the Board's Judgment.

28 MR. FRAWLEY: Q. Mr. Stechishin, will you
29 look at page 25 of your main brief, and you have a table
30 there listing the competitive stations in western



1
2 Canada and the asterisk denotes an official interchange.
3 Would you take any one of them at all and make a little
4 clearer than is in my mind at the moment as to what
5 this means? Take, for instance, the asterisk you
6 have at Drumheller, Alberta: what is the particular sig-
7 nificance of that?

8 MR. STECHISHIN: It means that traffic
9 between the C.P.R. and C.N.R. can be interchanged at
10 Drumheller from one railway to the other.

11 Q. Can be interchanged -- the railways can
12 and do interchange traffic at Drumheller?

13 MR. STECHISHIN: Yes, sir.

14 Q. What has that to do ratewise?

15 MR. STECHISHIN: When a shipper is located
16 on the line of one railway and his consignee is on the
17 other, he is entitled to whatever rate he can con-
18 struct using the various interchange points which may
19 be intermediate to them. He would work it out to
20 find out which would give him the lowest rate. That
21 means he could use Drumheller as one of the interchange
22 points.

23 Q. So there would not be any problem
24 arising if the shipment originated on either road,
25 either Canadian Pacific or Canadian National, in eastern
26 Canada and the destination was Drumheller -- the rate
27 would be the same?

28 MR. STECHISHIN: From eastern Canada to
29 Drumheller?

30 Q. Yes.



1
2 MR. STECHISHIN: There may be a switching
3 charge involved.

4 Q. Well, Drumheller has both railways?

5 MR. STECHISHIN: That is right.

6 Q. If the origination was at a Canadian
7 National point in eastern Canada and the receiver was
8 in Drumheller, I want to know whether or not he would
9 pay anything more under any circumstances than the
10 single line mileage rate?

11 MR. STECHISHIN: In so far as the rate itself
12 is concerned, he would pay the same rate, but if he
13 were on a C.P.R. siding he would pay switching charges
14 at either Drumheller or the point of origin.

15 Q. With respect to these many places that
16 have no asterisks, what is the rate situation?

17 MR. STECHISHIN: Between eastern Canada and
18 Western Canada?

19 Q. Take Alix, Alberta?

20 MR. STECHISHIN: Between eastern Canada and
21 western Canada it is exactly the same as Drumheller.
22 Within western Canada it would make a difference.

23 Q. Let us take a point that is on just one
24 line of railway: Dorothy, Alberta, is on the Canadian
25 National railway: now, assume that Dorothy is a local
26 point on the Canadian National railway, and the ship-
27 ment originated at a local point on the Canadian
28 Pacific railway in eastern Canada -- and there is no
29 asterisk -- what would be the rate situation?

30 MR. STECHISHIN: Dorothy is on both railways.



1
2 It is shown as a competitive station by both railways.
3 These are all competitive stations, in this table.

4 Q. Well, I don't understand. If I am a
5 receiver at a point where both railways are present, I
6 don't understand why I have to pay any more than the
7 single line mileage because if the origination is on
8 a Canadian National point and I live at Dorothy,
9 Alberta, I am on the Canadian National.

10 MR. STECHISHIN: Not necessarily. You may
11 be on the Canadian Pacific in Dorothy.

12 COMMISSIONER MANN: Mr. Stechishin, can I
13 avoid this switching charge at destination by so
14 interchanging with the other railway -- going this
15 side or one side of destination -- say, eastern Canada
16 interchanging at Paddington, and then the destination
17 on the siding -- can I avoid the switching charge at
18 Dorothy?

19 MR. STECHISHIN: If the routing between the
20 point of origin in eastern Canada and Dorothy permits
21 an interchange at Paddington, yes, you could. I don't
22 know whether this is one itself.

23 COMMISSIONER MANN: That is quite common,
24 isn't it -- to interchange at Paddington?

25 MR. STECHISHIN: In western Canada you would
26 not have that option.

27 COMMISSIONER MANN: No.

28 MR. FRAWLEY: Q. Mr. Stechishin, you tell
29 me these are competitive stations in western Canada and
30 you point out that all of these points have a Canadian



1
2 National station as well as a Canadian Pacific station,
3 and the origination is at a local point, a local
4 Canadian National point: now, I know that you perhaps
5 are assuming that I know more about this than I actually do.
6 Just tell me why, if I am a receiver doing business in
7 Dorothy, Alberta, and both railways go into Dorothy,
8 Alberta, then I don't know why I pay any more than
9 single mile mileage rate?

10 MR. STECHISHIN: If your plant is located
11 on the opposite railway to that which has the line haul,
12 how would you get it across to your plant -- on a
13 public team track and truck it over?

14 Q. That is just a local difficulty I have in
15 getting it to my plant, but if it is a competitive
16 station it means both railways are there?

17 MR. STECHISHIN: That is right.

18 Q. Well, other than having to pay some
19 charge to get it to my plant, if my plant happens to be
20 located over on the Canadian Pacific tracks, and this is
21 a car coming in on the Canadian National railway, then,
22 to get it from there over to my plant on the Canadian
23 Pacific tracks, I may have to pay a switching charge?

24 MR. STECHISHIN: You could not at Dorothy
25 because there is no interchange. You might put it
26 -- in other words, if you were located ten miles east
27 of Dorothy on the C.N.R. and your customer was located
28 ten miles west of Dorothy on the C.P.R., you could not
29 interchange at Dorothy, and you would have to go in
30 some circuitous method to find an interchange point,



1
2 and then continue on to your final destination.

3 61-A covers that point, and that is where I
4 used that illustration from Winkler to Gardenton, with
5 Morris being the competitive point and not having an
6 interchange.

7 Q. I understand it, Mr. Stechishin.

8 MR. STECHISHIN: Paragraph 61 reads as
9 follows:

10 "Today in western Canada with only limited
11 exceptions, all rates are based on the
12 through mileage over the line of one
13 railway, if serving both origin and
14 destination. Where origin and desti-
15 nation are on different railways, the
16 through rate is constructed by adding
17 the local rates to and from an officially
18 recognized interchange point. It
19 should be understood that an interchange
20 point and a junction point are not neces-
21 sarily comparable."

22 Dorothy might be between the point of origin and
23 destination, but it could not be used as the interchange
24 point for rate making purposes.

25 MR. MAURO: I think paragraph 61-A describes
26 it.

27 MR. STECHISHIN: "The mere fact that both
28 railways reach a point or even serve a
29 junction point does not give the shipper
30 the right to construct his combination rate



1
2 on that junction point unless the railways
3 choose to designate that junction point as
4 an official interchange."

5 COMMISSIONER BALCH: Would it be plainer if
6 you would explain this: you say, "officially recognized
7 interchange points". If we cleared that up --
8 "officially recognized"?

9 MR. STECHISHIN: There are certain places in
10 western Canada -- I don't know too much about the east --
11 where the railways have a physical connection but it is
12 not designated as an interchange point. They could
13 physically transfer cars from one railway to another
14 but they do not do so.

15 COMMISSIONER BALCH: I am a little bit
16 foggy on this very factor, that the railways have the
17 choice of making an interchange point; is that the point?

18 MR. STECHISHIN: Yes, they may be ordered to
19 do so by the Board on occasion.

20 MR. SINCLAIR: The Board has jurisdiction.
21 The municipality or any shipper can make an application
22 to the Board and have one designated tomorrow, if the
23 Board decides; and the costs associated will be decided
24 as the Board apportioned. It is set out in the Railway
25 Act -- I think it is Section 341.

26 MR. FRAWLEY: Q. Mr. Stechishin, you follow
27 the rate cases in western Canada; do you recall the
28 difficulty experienced by Lloydminster?

29 MR. STECHISHIN: Yes, sir, very well.

30 Q. And in that instance there was a refinery



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1
2 built on Canadian National tracks, and the refinery
3 obtained some contract on local Canadian Pacific points ---

4 THE CHAIRMAN: I don't think we should go
5 into that because I made the application.

6
7 ---Short recess.
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THE CHAIRMAN: Order, please. Mr. Frawley?

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MR. FRAWLEY Q: Mr. Stechishin, we

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adjourned for the recess before you answered my question,

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and I had just put this administrative situation to

6

you where a refinery had located at Canadian National,

7

Lloydminster, being served by both the Canadian Pacific

8

and Canadian National, and where the refinery at

9

Lloydminster had obtained some business at

10

Saskatchewan on Canadian Pacific local points and he

11

found he had to pay \$50.00 to \$60.00 a car to move

12

the car from his refinery tracks on Canadian National

13

over to the Canadian Pacific tracks where it could

14

start on its way down to southern Saskatchewan. Do

15

you recall that that turned into a bitterly contested

16

matter before the Board of Transport Commissioners?

17

MR. STECHISHIN: I remember reading not

18

the transcript but the Board's order in that regard.

19

Q. In that instance, the Canadian

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Pacific was very anxious to have an interchange so

21

that it could take these cars down through Canadian

22

Pacific destinations and the Canadian National

23

opposed it very vigorously. In the end, the Board

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ordered that an interchange be built physically so

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that the cars could move from the Canadian National

26

tracks at the refinery over to the Canadian Pacific

27

tracks and then move it to the local points on the

28

Canadian Pacific, and in that way save this rather

29

considerable charge per car?

30

MR. STECHISHIN: That is right, sir.



1
2 Q. Have you any comment at all to make
3 on whether or not that sort of condition or situation
4 can be improved and why an industry finding itself
5 located on the tracks of one railway and then finding
6 business for his product on local points of the other
7 railway has to spend \$60.00 to \$75.00 a car before
8 he can move it away from his refinery? Can that
9 situation in your opinion be improved, and if so, how?

10 MR. STECHISHIN: We have a recommendation
11 on interline rates, Mr. Frawley,, appearing on page
12 35, paragraph 80.

13 Q. Page 35, paragraph 80?

14 MR. STECHISHIN: Which reads:

15 "Where freight rates are based on
16 mileage they should be based between all
17 stations in Canada on the shortest through
18 rail mileage regardless of whether or not
19 it is necessary in the course of the
20 movement to transfer the goods from one
21 railway to another."

22 The next sentence does not add anything
23 to that particular thing. But then, it reads:

24 "The railways should continue to
25 be allowed, in fact they should be
26 encouraged, to name one central point
27 in an economic area as the rate basing
28 point and apply that rate to surrounding
29 stations disregarding minor differences
30 in mileage. It is our considered



1
2 opinion that if this recommendation is
3 implemented, it would have the effect of
4 firstly, giving equality of treatment
5 between eastern and western Canada and
6 secondly, equality of treatment between
7 those stations which are located on the
8 lines of a single railway and those
9 stations which have had the good fortune
10 to be located on the lines of two or more
11 railways."

12 Q. Mr. Stechishin, I think the matter
13 of sufficient general importance and because there is
14 a principle involved it perhaps should be
15 discussed for a moment before the Commission. In
16 western Canada many industries find themselves
17 located on a line of one railway?

18 MR. STECHISHIN: Yes, sir.

19 Q. And we sometimes find that is
20 brought about by the solicitation of the trade
21 development branches of the railways endeavoring to
22 get the industry to locate on through local lines
23 on their tracks and at stations which are served by
24 their railway, but not by the other railway. We
25 find that very commonly in western Canada?

26 MR. STECHISHIN: I would presume that
27 solicitation would be one factor.

28 Q. You take the whole of southern
29 Alberta which is not served except by Canadian
30 Pacific, and if an industry goes into any place you



1
2 like, even including Lethbridge, they find that
3 unless special arrangements are made the prevailing
4 rate situation is that a shipment moving out of
5 Lethbridge destined to a local point on the
6 Canadian National Railway, such as, say, Vermillion,
7 Alberta, must pay the sum of two local rates: the
8 Canadian Pacific rate from Lethbridge to, perhaps,
9 Camrose, and the Canadian National rate, which is a
10 new rate of taper from Camrose to Vermillion. I
11 understand that to be a very common situation in
12 western Canada?

13 MR. STECHISHIN: We have a very similar
14 situation in northern Manitoba, Mr. Frawley.

15 Q. I put it to you, Mr. Stechishin, for
16 the purpose of the Commission's consideration that
17 that is a situation which should not exist and that
18 the single line mileage should be the basis for the
19 making of the rates, whether or not the shipment
20 originates on the line of one railway, a local point
21 on one railway, and is destined to a local point on
22 another railway?

23 MR. STECHISHIN: Our recommendation, Mr.
24 Chairman, is:

25 "Where freight rates are based on
26 mileage they should be based between
27 all stations in Canada on the shortest
28 through rail mileage regardless of
29 whether or not it is necessary in the
30 course of the movement to transfer the



1 goods from one railway to another."

2
3 Q. I call your attention to another
4 situation. Cement is a very important commodity
5 in western Canada, is it not?

6 MR. STECHISHIN: Yes, very much so.

7 Q. And cement was manufactured for many
8 years by the Canada Cement Company at a local point
9 on the Canadian Pacific Railway, Exshaw?

10 MR. STECHISHIN: Yes, I am aware of the
11 plant.

12 Q. And I put it to you that receivers
13 of cement from Exshaw -- lumber yards located at
14 local Canadian National points, such as Vermillion,
15 that I have just given to you, found it more
16 convenient and more satisfactory to have their
17 shipments billed to a destination, to the nearest
18 destination on the Canadian Pacific Railway, and
19 then unload and truck across the prairie to the
20 yard of the receiver located at a local Canadian
21 National point. You have found that situation
22 elsewhere in western Canada?

23 MR. STECHISHIN: I find that situation
24 and I have noticed it frequently resulted in the
25 shipper making the entire shipment by truck.

26 MR. SINCLAIR: Of course, if Mr. Frawley
27 is going to start taking specifics, and he has taken
28 one here, I suggest if he looks at the tariffs he
29 will find that on shipments originating in Exshaw
30 destined to Canadian National points in British



1 Columbia, Saskatchewan, or Alberta, there is joint
2 through rates on them by a special tariff.

3 MR. FRAWLEY: Well, now, I hope that my
4 friend -- I don't profess to know too much about
5 individual rate situations ---

6 MR. SINCLAIR: Then why use them?

7 MR. FRAWLEY: I would have thought that
8 my friend would have perhaps known that I personally
9 brought about the cement traffic out of Exshaw that
10 now quotes single line mileage plus a factor.

11 MR. SINCLAIR: That is why I am surprised.
12 He mentions one and now he is mentioning cement which
13 is well known to this Commission.

14 MR. FRAWLEY: If you would just let me
15 develop it.

16 Q. I put it to you, Mr. Stechishin, that
17 before this joint mileage tariff, or whatever you want
18 to call it that now has been brought about, there
19 were instances where a Canadian National destination
20 100 or 150 miles distant from Exshaw on the Canadian
21 Pacific line would pay X cents, and a Canadian National
22 destination 100 miles from Exshaw would pay X cents
23 plus as high as 15 cents. I put that situation
24 to you as one that was crying for redress. Would
25 you not agree with me?

26 MR. STECHISHIN: Very much so. That is
27 quite correct. We have a few instances of that
28 in our brief: this combination of rates.

29 Q. Now that you have raised the question
30



1 of interline, and my friend Mr. Sinclair tells me
2 that now Exshaw has a tariff which charges the single
3 line rate with a plus, then it all comes down to
4 whether or not the plus is a fair plus, and I put it
5 to you, Mr. Stechishin, that having worked with the
6 railways over a period of many months, and I was
7 in a sense working for these receivers in those yards
8 on Canadian National local points, in fairness it
9 must be said that without any assistance whatsoever
10 from the Canadian National Railways, there was a new
11 tariff published which now quotes to a point like
12 Vermillion the single mileage rate plus four cents.
13

14 Do you know of any comparable instances
15 in other parts of Canada where the joint rate is the
16 single line mileage plus something better than four
17 cents?

18 MR. STECHISHIN: Yes, there is a tariff
19 in eastern Canada. There seems to have been some
20 difference of opinion as to whether it was CFA-3 or
21 CFA-6, as referred to in this court room in cross-
22 examination by Mr. Cooper on Friday, I believe,
23 where the through rate is published on the basis
24 of the through mileage without four cents added or
25 any sum added.

26 COMMISSIONER MANN: What is the application
27 of CFA Tariff 3? The territorial application?

28 MR. STECHISHIN: I have not checked out
29 each station in the tariff, but I get the impression
30 it is more or less what is referred to as central



1
2 Canada.

3 COMMISSIONER MANN: Ontario and Quebec?

4 MR. STECHISHIN: Ontario and Quebec, yes.

5 MR. FRAWLEY Q: Would you be good
6 enough, Mr. Stechishin, to repeat that answer for
7 me because I was busy here?

8 MR. STECHISHIN: The rate in this tariff
9 to which we are referring is based on the through
10 mileage from point of origin to destination without
11 any sum added, fourcents or less.

12 Q. And that tariff is in effect where?

13 MR. STECHISHIN: As near as I am able
14 to ascertain, within central Canada.

15 Q. It seems to me, Mr. Stechishin,
16 that the situation in the United States -- they ruled
17 rather than the exception that a shipment originating
18 on one railway and terminating on another railway
19 pays a single line mileage?

20 MR. STECHISHIN: That is correct, yes.

21 Q. So that perhaps we have the situation
22 existing chiefly and perhaps only in western Canada
23 where a shipment originating at a local point on the
24 Canadian Pacific and destined to a local point on the
25 Canadian National Railway, that even at the very
26 best that rate is the single mileage rate plus some
27 appreciable addition, for what purpose I do not know,
28 except to take care of some physical switching
29 operation?

30 MR. STECHISNIN: It is not exclusively



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2 within western Canada, but I would say primarily
3 within western Canada.

4 Q. Now, Mr. Stechishin, would you look
5 at page 50 of your brief. You make the statement
6 at page 50, at the bottom of page 49, and I will
7 read there the last sentence on the bottom of page
8 49:

9 "As long as the rate to an
10 intermediate point is reasonable of itself,
11 that is, as long as the rate to an
12 intermediate point is not unreasonable
13 or unfair under the provisions of the
14 Railway Act, and as long as the lower rate
15 to the more distant point is both necessary
16 and compensatory, it is difficult to
17 see how the receiver at the intermediate
18 point is injured by the lower rate to the
19 more distant point. In fact, it is our
20 considered opinion that the shipper at
21 the intermediate point is helped by the
22 exception to the long and short haul
23 clause since the contribution to net
24 revenue made by the lower rate to the
25 more distant point reduces the overhead
26 cost that would have to be borne by the
27 traffic to the intermediate point."

28 I want to ask you about your statement
29 that you do not see how the receiver at an intermediate
30



1
2 point is injured by a lower rate to the more distant
3 point.

4 Now, you are aware in a general way, at
5 least, Mr. Stechishin, and perhaps in a very
6 particular way, that the differentials in the rates
7 from eastern Canada to Alberta destinations -- for
8 that matter destinations elsewhere in western
9 Canada -- but speaking of Alberta, to Alberta
10 destinations, the differential between that rate
11 and the rate to the more distant point on the Pacific
12 coast ---

13 MR. STECHISHIN: You are using differentials
14 here in a different context than you were under the
15 lake and rail discussion?

16 Q. perhaps differential is not the
17 right word. The proper description is, I guess,
18 the rate to the intermediate point which violates
19 the long and the short haul rule.

20 Now, I want you to look at a rate on
21 steel plate, agreed charge number 78 on steel
22 plate, a rate of \$1.20 from Hamilton to Vancouver,
23 and a rate on the same steel plate from Hamilton
24 to Edmonton of \$2.40.

25 In case anyone should think that I am
26 talking about paper rates, I put it to you that
27 Edmonton receives 55 to 60 cars a year and Calgary
28 receives something less, but one or two firms
29 alone in Calgary receive twelve cars.

30 I am only putting it to you that, as I



1
2 understand the word "paper rate", it is not a paper
3 rate situation. Now, in any event, I put it to you
4 that the receiver of that steel plate endeavoring
5 to make any distribution in the western part of
6 Alberta or in the southeastern corner of British
7 Columbia certainly is injured, his marketing ability
8 is injured, by the existence of that \$1.20 rate to
9 Vancouver as against the \$2.40 rate to Edmonton.
10 Do you not agree, Mr. Stechishin?

11 MR. STECHISHIN: The situation you are
12 discussing there, Mr. Frawley, is not quite what I
13 had in mind when I made that statement. I was
14 thinking of a receiver of freight, not a shipper
15 of freight, and I think the answer to the specific
16 problem that you put of this man distributing from
17 Edmonton into the southeastern British Columbia
18 market is answered by our paragraph 271 on page 125.

19 Q. Paragraph 271?

20 MR. STECHISHIN: On page 125. I will
21 read it:

22 "It is our view that the railways
23 should so adjust their rate structure to
24 ensure that all shippers along their
25 lines have a reasonably equal chance
26 to compete in a given market, taking
27 into consideration inbound and outbound
28 rates. If the railways fail to do this,
29 the Board of Transport Commissioners
30 should be directed to prescribe equitable



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2 rates in a manner consistent with the
3 principle adopted in the Alberta Pipe
4 Case, or the railways should be
5 required to grant transit privileges."

6 Q. Yes?

7 MR. STECHISHIN: That recommendation there,
8 I think, would take care of the Alberta shipper that
9 you are referring to in this question.

10 Q. So this man in Edmonton has to pay
11 \$2.40 -- \$2.30 in Calgary and \$2.40 in Edmonton.
12 The Edmonton man is paying 200 per cent of the
13 Vancouver rate and the Calgary man is paying 191.7
14 per cent of the Vancouver rate. But I put it to
15 you that that man, being both a receiver and a
16 shipper, the rate structure which has developed
17 as a result of the agreed charges being freed from
18 the application of the one and one-third rule
19 necessarily is a detriment to the ability of a
20 receiver of freight from eastern Canada; an Alberta
21 receiver of freight from eastern Canada also shipping
22 that freight into his ordinary market territory is
23 at a distinct disadvantage?



1
2 MR. STECHISHIN: No, Mr. Frawley, I can't
3 agree that if he had a transit privilege on the steel
4 he should be on exactly the same rate structure as his
5 competitor.

6 Q. If your suggestion were adopted that
7 would be the case?

8 MR. STECHISHIN: Yes.

9 Q. But take the situation as it is, this
10 suggestion of yours hasn't been adopted, and I am putting
11 it to you that in the situation as it exists that re-
12 ceiver and shipper of freight is at a distinct disad-
13 vantage.

14 MR. STECHISHIN: I think you can't take any
15 one part of the brief and divorce it from the rest.
16 We have made these suggestions and trying to encompass
17 the whole picture. In paragraph 268 we say:

18 "The Board found that the rate situation
19 did discriminate unjustly against the
20 complainant, and prescribed rates to
21 and from Edmonton, the sum of which were
22 related to the total charges paid by either
23 Hamilton or Port Moody."

24 Q. But, Mr. Stechishin ---

25 MR. STECHISHIN: I think that answers your
26 question.

27 Q. Yes, it probably does, because I think it
28 is fair that this whole brief should be read together,
29 and what you are saying in paragraph 112 on page 50 is
30 subject to what you have said later on, this in transit



1
2 suggestion you are making.

3 MR. STECHISHIN: I also said that the state-
4 ment made was based on the receiver of freight, not the
5 shipper of freight.

6 Q. The suggestion I am putting to you is
7 the case of a distributor of goods originating in eastern
8 Canada being shipped to Alberta at so-called intermediate
9 rates which are very considerably higher, in this case
10 100 per cent higher than the coast rates, and I simply
11 put it to you that a receiver and shipper at that time
12 is at a distinct disadvantage and will continue to be
13 unless there is relief to him under the Alberta Pipe
14 Case.

15 MR. STECHISHIN: You combine receiver and
16 shipper as being synonymous. I was thinking of a
17 receiver.

18 ". . . it is difficult to see how the
19 receiver at the intermediate point is
20 injured by the lower rate to the more
21 distant point. In fact, it is our con-
22 sidered opinion that the shipper at the
23 intermediate point is helped by the
24 exception to the long and short haul
25 clause since the contribution to net
26 revenue made by the lower rate to the
27 more distant point reduces the over-
28 head cost that would have to be borne
29 by the traffic to the intermediate
30 point."



1
2 Q. What you say, looking at it as a re-
3 ceiver alone, is a rate to the intermediate point,
4 this rate of \$2.40 on steel plate as against a rate
5 to Vancouver origins rate --

6 "As long as the rate to an intermediate
7 point is reasonable of itself, that is,
8 as long as the rate to an intermediate
9 point is not unreasonable or unfair under
10 the provisions of the Railway Act."

11 Now, what standards do you apply to determine that
12 \$2.40 rate is a reasonable rate?

13 MR. STECHISHIN: I don't apply standards.
14 That is why I made the reference to the Railway Act.

15 Q. I suppose the qualifying words are
16 that the rate should be just and reasonable?

17 MR. STECHISHIN: Yes.

18 Q. How do you determine that this \$2.40 rate
19 is just and reasonable?

20 MR. STECHISHIN: I don't.

21 Q. How would one implement and apply the
22 language which you have used here and come to the con-
23 clusion that that \$2.40 rate is just and reasonable,
24 under the Railway Act?

25 MR. STECHISHIN: I do not think, Mr. Frawley,
26 I could try to put the reasons behind the Board in
27 expressing an opinion whether or not a rate is just
28 and reasonable in itself. I would have to say that
29 they arrive at that rate by comparing, say, other
30 rates with similar characteristics.



1
2 Q. Surely they don't compare the rate to
3 Vancouver?

4 MR. STECHISHIN: I think in many cases they
5 would have to do that because it has been brought to
6 their attention, and what seems to be in the Board's
7 mind is the difference in the characteristics rather
8 than the similarity.

9 Q. We have a rate of \$2.40 for the mileage
10 from Toronto to Edmonton and we have a rate of \$1.20
11 from Toronto to Vancouver, 640 miles further on Canadian
12 Pacific. Now, you are not going to suggest that you
13 arrive at the justness and reasonableness of the \$2.40
14 rate by comparing it with the \$1.20 rate. If you do,
15 I suggest it would not possibly be just and reasonable.

16 MR. STECHISHIN: I think the Board takes
17 the position that the mere existence of the \$1.20
18 rate does not make the \$2.40 rate unjust. If the
19 \$1.20 rate were removed the man complaining about the
20 \$2.40 rate loses the ground of his complaint.

21 Q. No one is suggesting for a fraction of
22 a second that the railways should do other than
23 continue the charge that they have been compelled by
24 competition to establish for the far distant points,
25 in this case Vancouver. I am sure everybody, not
26 only on the Commission, including my friends the
27 railway counsel, wants to make it abundantly clear
28 that the favourable Vancouver rate be not touched
29 one iota. As a matter of fact, what we say is please
30 leave those rates there. All we say is obey the



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2 provisions of the Railway Act and the Board will check
3 you if it is not compensatory, and so on. But I want
4 to make it abundantly clear that no part of it indicates
5 an intention or desire to interfere with that Vancouver
6 rate, but what I am saying is that a rate which falls
7 short of 640 miles has to pay twice. You said the
8 Board says, well, what a worse situation it would be if the
9 rate to Vancouver were removed. It is no part of our
10 premise that that rate be removed.

11 MR. MAURO: The point is what is a discrimina-
12 tory or unreasonable rate, and the answer was ---

13 THE CHAIRMAN: The answer was reasonable.

14 MR. FRAWLEY: Q. Now, if you do not judge
15 the justness and reasonableness of the Edmonton rate
16 of \$2.40 by looking at the Edmonton rate to Vancouver,
17 then what do you use to compare it with to determine
18 its justness or reasonableness?

19 MR. MAURO: I really do apologize for
20 interrupting, but Mr. Stechishin has said that they
21 approach it on the basis that if they remove the \$1.20
22 rate is the position of the intermediate receiver
23 improved, and that is the justness and reasonableness
24 in relation to the \$1.20 rate.

25 MR. FRAWLEY: Q. Are you saying that with
26 the short haul receiver at Edmonton, short by 750 miles
27 in the case of Edmonton and short by 640 miles in the
28 case of Calgary -- are you saying to that receiver
29 you are paying now 200 per cent of the short haul rate
30 but you are not too badly off because if we do not have



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2 that rate to Vancouver you would be paying more than
3 the \$2.40 rate to Edmonton.

4 MR. STECHISHIN: That is in the second part
5 of that paragraph, Mr. Frawley.

6 "In fact, it is our considered opinion
7 that the shipper at the intermediate
8 point is helped by the exception to the
9 long and short haul clause since the
10 contribution to net revenue made by the
11 lower rate to the more distant point
12 reduces the overhead cost that would
13 have to be borne by the traffic to the
14 intermediate point."

15 Q. Mr. Stechishin, I put it to you: place
16 yourself in the boots of the man in Edmonton who is
17 paying \$2.40 and someone says to him: "You should be
18 glad you are only paying \$2.40; you could be paying
19 \$2.45 or \$2.50." Is that cold comfort to a man who
20 is paying 200 per cent for a haul 700 miles short of
21 Vancouver?

22 MR. MAURO: I am going to ask the witness
23 not to answer whether or not it is cold comfort. I
24 am only too pleased to have the discussion on the
25 question of rates. I don't suggest that Mr. Stechishin
26 is an authority on comfort.

27 MR. FRAWLEY: Q. I put it to you that it
28 is not an adequate or a fair test to put to the
29 receiver in Edmonton to tell him that he should consider
30 himself well off that he is only paying 200 per cent



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2 of the Vancouver rate when he might well be paying
3 210 per cent of the Vancouver rate. I put it to
4 you that that is not a fair test to put to this rate
5 situation.

6 MR. STECHISHIN: There are numerous rates
7 in Canada where for equivalent mileage it might be
8 200 per cent one of the other. The mere fact that it
9 happens to be intermediate I think is entirely inci-
10 dental as to the effect one rate has upon another.
11 Let us assume you have a rate from Winnipeg westward,
12 say to Vancouver, of \$1.20, and you have a rate Winnipeg
13 to Montreal -- or let us say Sudbury -- of \$2.40. I
14 don't think that Sudbury is injured by the Winnipeg-
15 Vancouver rate. Now, if Sudbury happens to be moved
16 over to make it intermediate, then you are saying there
17 is injury. There is no injury that I can see. There
18 is difference, yes, and a wide difference in rate.

19 Q. I put it to you that to ask the receiver
20 at Edmonton to pay the \$2.40 rate and to ask the Vancouver
21 man to pay \$1.20 is to ask the Edmonton receiver to make
22 a greater disproportionate contribution to the overhead
23 of the carrier.

24 MR. STECHISHIN: I am certain that the contri-
25 bution is disproportionate. I don't think that in it-
26 self is making the contribution unreasonable.



1
2 Q. All right; what makes it a reasonable
3 rate? What are the tests of making it a reasonable
4 rate, or which make it a disproportionate rate to
5 overhead, for whatever value that is?

6 THE CHAIRMAN: What effect would your
7 suggestion have on rail revenues?

8 MR. FRAWLEY: What effect would it
9 have on rail revenues?

10 THE CHAIRMAN: Yes?

11 MR. FRAWLEY: It would not have any more
12 effect on the rail revenues than if through the
13 trans-Canada highway we had all these high
14 intermediate rates eliminated. If the trans-
15 Canada highway was functioning today, as it will
16 be, we hope, or if some other competitive situation
17 comes in, sir, the railways can simply --
18 competition brings the rate down, and the \$2.40
19 rate would come down to \$1.20, or even less.

20 THE CHAIRMAN: Would they have less
21 money in the till?

22 MR. FRAWLEY: Would the railways have
23 less money in the till?

24 THE CHAIRMAN: Yes?

25 MR. FRAWLEY: I have certainly not looked
26 in their till, and I certainly do not know.
27 Suppose they did, sir? Suppose they did -- and
28 let us just face it -- so that the receivers in
29 Alberta have got to keep the till full to keep these
30 contributions to overhead up, and we must abide by



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2 that situation and be content with this long and
3 short haul discrimination. I am discussing it with
4 you, sir, but you ask me: would they have less
5 revenue? Let us accept it on the basis that they
6 would have. I say they are taking too much revenue
7 from the receivers in Alberta. I am not concerned
8 with what they do in Vancouver. They are probably
9 extracting the last cent they can from the receivers
10 in Vancouver. Let us make no mistake about that.
11 If they did not have that low rate the glass would
12 come from Belleville. If they did not have the low
13 rate the steel would come in from Hamilton by water,
14 or in from Japan in some other way. I am concerned
15 with the degree of contribution to overhead that
16 results from this long and short haul discrimination.

17 Q. I suppose you would agree with me
18 that it costs a good deal less, Mr. Stechishin, to
19 haul a car of steel plate from Hamilton to Edmonton
20 than from Hamilton to Vancouver?

21 MR. STECHISHIN: I would think it would
22 cost quite a great deal less.

23 Q. Now, Mr. Stechishin, I would like
24 to ask you to look at your Exhibit 153-I, and I
25 want to understand what you are proposing in this
26 statement, Exhibit 153-I, in Appendix 2. That is
27 in your second volume, Exhibit 153.

28 MR. STECHISHIN: I must have them in the
29 wrong order, Mr. Frawley. I -- yes, I see.

30 Q. Appendix 2. Will you look at the



1 rate on page 2 of this statement called "Cement Pipe"?
2 Now, cement pipe moves from Winnipeg to Vancouver now
3 at \$2.45.
4

5 MR. SINCLAIR: What is that based on?
6 With respect, Mr. Chairman, I do not think that counsel
7 should say that cement pipe apparently moves from
8 Winnipeg to Vancouver. My instructions are that it
9 does not.

10 MR. FRAWLEY: I accept my friend's
11 explanation.

12 Q. The present rate on cement pipe from
13 Winnipeg to Vancouver is \$2.45.

14 MR. STECHISHIN: That is right, sir.

15 Q. And the present rate on cement pipe
16 from Toronto to Vancouver is \$1.26?

17 MR. STECHISHIN: That is from Port Union.

18 THE CHAIRMAN: Are these rates paper rates?

19 MR. SINCLAIR: I am instructed, sir, that
20 they are not even the rates that are effective under
21 the tariffs in this case.

22 MR. FRAWLEY: Q: We will just take two
23 of them. Take paper articles. The rate on paper
24 articles from Winnipeg to Vancouver is \$7.44, and the
25 rate on paper and paper articles from Toronto to
26 Winnipeg is \$3.33 by virtue of an agreed charge?

27 MR. STECHISHIN: Toronto to Vancouver, Mr.
28 Frawley.

29 Q. The rate from Toronto to Vancouver is
30 \$3.33. As I understand it, you propose that there



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2 should be not only the \$1.26 rate applying on the
3 cement pipe from Winnipeg to Vancouver but it should
4 be a better rate than \$1.26 because it should reflect
5 the distance factor?

6 MR. STECHISHIN: I am suggesting
7 that that rate and generating that traffic from
8 Winnipeg would be of benefit to the railways rather
9 than from Port Union; that every time they take a
10 car from Port Union to Vancouver instead of from
11 Winnipeg to Vancouver the railways are out-of-pocket --
12 they reduce their revenues, I should say.

13 Q. That may be, Mr. Stechishin, but I
14 would just like you to be responsive to these
15 questions, if you can. From what I understood you
16 to say, and I think it is written in the other volume
17 of your submission, you feel that the Winnipeg to
18 Vancouver rate should be not only \$1.26 but something
19 less than \$1.26 because there is the distance factor,
20 Winnipeg being nearer Vancouver than Toronto is. Did
21 I understand your proposal? That is what I want
22 to be sure of.

23 MR. STECHISHIN: That is our recommendation,
24 Mr. Frawley, on page 54.

25 Q. Of your main brief?

26 MR. STECHISHIN: Yes, of the main brief.

27 MR. SINCLAIR: Under the tariff CP Ry. W-975,
28 under the article which is being discussed by my
29 friend, Mr. Frawley, the rate is \$1.85 a hundred.

30 MR. FBWLEY: Paper articles?



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2 MR. SINCLAIR: Yes, \$1.85 a hundred.

3 MR. FRAWLEY: From Winnipeg instead of
4 \$7.44 it is \$1.85?

5 MR. STECHISHIN: Effective when?

6 MR. SINCLAIR: December 31, 1960 --
7 March 21, 1960, pardon me; March 21, 1960.

8 MR. STECHISHIN: That is correct, yes.

9 MR. FRAWLEY Q: So you are only paying
10 about half the Toronto rate?

11 MR. STECHISHIN: Mr. Frawley, at the time
12 I prepared this exhibit that item was not effective.
13 This was put into the record at Winnipeg in February,
14 and I see that the railways reacted very rapidly,
15 and I am quite pleased. I wish they would do that
16 on all of these.

17 MR. MAURO: You were at page 54.

18 MR. STECHISHIN: Yes, I will read the
19 recommendations, if I might, Mr Frawley:

20 "Firstly: That the railways should not
21 be permitted to select the centres which
22 will be allowed to compete in a given
23 market.

24 Secondly: When a competitive rate is
25 published from a more distant point, the
26 intermediate point, in our case Manitoba,
27 should be given a rate reflecting its
28 shorter haul to the same destination,
29 that is a rate reflecting its geographic
30 location.



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2 Thirdly: Normal relations between
3 shipping points to a given market should be
4 generally maintained. In other words, the
5 rate from Winnipeg to Vancouver should be
6 lower than the rate from Toronto to
7 Vancouver on the same commodity. Similarly,
8 the rate from Winnipeg to Toronto should
9 be lower than the rate from Vancouver to
10 Toronto on a given commodity."

11 MR. FRAWLEY Q: I think I understood you,
12 yes. Looking at these rates, in appendix 2, Mr.
13 Sinclair has called your attention to the fact that
14 your rate of \$7.44 is probably a paper rate because
15 he is telling you there is a rate of \$1.85.

16 MR. SINCLAIR: A minimum of 37,000.

17 MR. FRAWLEY: Q: All right; you have
18 a rate on vehicle windshields, on page 3 of your
19 submission, from Winnipeg to Vancouver of \$5.20, and
20 from Windsor to Vancouver of \$4.37, but, in any event,
21 what you say is that wherever you find a lower rate
22 from groups A and B, Toronto -- to Vancouver, whenever
23 you find a lower rate than the rate from Winnipeg to
24 Vancouver on the same commodity, that should be
25 adjusted? You say that is not a proper situation,
26 and that the rate from Winnipeg to Vancouver should
27 be less than the rate from Toronto to Vancouver?

28 MR. STECHISHIN: A lower rate should be
29 available to the shipper from Winnipeg; that is correct.

30 Q. Well, would the railways not say to



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2 you, Mr. Stechishin, "There is competition between
3 Toronto and Vancouver via the Panama Canal or via
4 the use of the rate parity situation which the
5 American railways have in the trans-continental
6 freight rate structure"? Whatever the reason is,
7 there is competition from Toronto to Vancouver,
8 and there is not any competition from Winnipeg to
9 Vancouver, and that is why you pay more?

10 MR. STECHISHIN: My answer to that would
11 be, first, that the railways should be more concerned
12 with improving their net revenue position than they
13 should be with elimination certain competition which
14 might happen to exist.

15 Q. I put it to you that they would give
16 you the same answer which they have given to the
17 Alberta receivers, namely, that there is competition
18 between Toronto and Vancouver, and there is no
19 competition between Toronto and Edmonton and Calgary,
20 and that is why you pay these high class rates or
21 parity rates?

22 MR. STECHISHIN: You are speaking of
23 rates to intermediate points. I was speaking of
24 rates from intermediate points. I say the last
25 answer I gave you was related to competition from
26 intermediate points, and now you are speaking of
27 rates to intermediate points, and I think the two are
28 completely different.

29 MR. FRAWLEY: I think they are the same
30 to the extent there is competition between Toronto and



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2 Vancouver and no competition between Toronto and
3 Edmonton, or between Winnipeg and Vancouver. I put
4 it to you that that is what the railways say about
5 it.

6 MR. STECHISHIN: I have heard the railways'
7 answer on that on many occasions, and that is what
8 they do say.

9 Q. I put it to you that the railways
10 would make the same answer to you as they have made
11 to us, namely, that the all-important and effective
12 fact is that there is competition between the eastern
13 Canadian origin and the west coast which does not
14 apply elsewhere -- at least, that is what they say?

15 MR. STECHISHIN: I gather your question --
16 you are asking what the railways will put to me. I
17 do not know. I would hope they would take a more
18 realistic approach and say they should increase their
19 net revenues instead of trying to meet competition
20 where it exists. If they do not do that, then, Mr.
21 Frawley, they do not.

22 Q. Let me put it to you this way; surely,
23 over all of these years a shipper in Winnipeg shipping
24 to Vancouver has called the railways' attention to the
25 fact that Winnipeg is paying a higher rate to Vancouver
26 than Toronto is?

27 MR. STECHISHIN: I was one of those
28 shippers, Mr. Frawley.

29 Q. And, surely, you were told that there
30 is competition between Toronto and Vancouver ---



1
2 MR. STECHISHIN: For some reason the
3 railways gave me the same rate from Winnipeg to
4 Vancouver as they did the Toronto man. Why would
5 they give me that rate if there was no competition?
6 I fail to follow.

7 Q. Then, I put it to you in the case of
8 other shippers from Vancouver to Winnipeg the railways'
9 basic position that there is competition between
10 Toronto and Vancouver which is not comparable to the
11 competition between Toronto and Edmonton, or between
12 Winnipeg and Vancouver? I put it to you that that
13 must be the traditional answer from the railways?

14 MR. STECHISHIN: Well, if you are making
15 it the traditional answer then I would have to agree,
16 yes.

17 THE CHAIRMAN: You would agree that net
18 revenue is vital to the railways?

19 MR. STECHISHIN: Yes, I think it should be.
20 I think there has been insufficient emphasis placed
21 on net revenue in rate making.

22 MR. FRAWLEY Q: But the way you have
23 worked this out, Mr. Stechishin, in putting forward
24 Manitoba's case, or Winnipeg's case -- yes, Manitoba's
25 case -- my friend said something. What is the
26 difference between Winnipeg and Manitoba?

27 MR. MAURO: That shows my friend has not
28 spent sufficient time on this subject.

29 MR. FRAWLEY: If you take Winnipeg out
30 of Manitoba then all you have got is some bush.



1
2 MR. SINCLAIR: We will see about that, and
3 we will cross-examine at the first opportunity and give
4 my friend some knowledge about Manitoba, and the
5 alignment of counsel may change.

6 MR. FRAWLEY Q: In any event, Mr.
7 Stechishin, as I sum up your advancing of this case for
8 Manitoba, and your desire to get a rate from Winnipeg
9 to Vancouver as good as or even better than the rate
10 from Toronto to Vancouver -- with that objective in
11 your mind you can still look with equanimity at the
12 rate of \$1.26 on steel plate to Vancouver from Hamilton
13 and at a rate on the same steel plate from Hamilton
14 to Edmonton of \$2.40, and with equal equanimity you
15 can look at the rate of 95 cents on skelp from Hamilton
16 to Vancouver and a rate of \$1.84 on the same skelp
17 from Hamilton to Edmonton;
18 and you can look equally at a rate on boards and sheets
19 from Donnacona, Quebec. to Vancouver of \$1.78 and a
20 rate on the same boards and sheets from Donnacona,
21 Quebec to Calgary of \$2.75? That seems to be the
22 situation that Manitoba takes?

23 MR. STECHISHIN: Now, Mr. Frawley, I think
24 you would have to go over those one at a time. You
25 have lumped an awful lot together, and I had difficulty
26 in following you.

27 THE CHAIRMAN: Mr. McDonald, will you
28 proceed at 2:00 o'clock?

29 MR. McDONALD: Yes, thank you, Mr. Chairman.
30 --- Luncheon adjournment.



1
2 THE CHAIRMAN: Order, please. Mr.
3 McDonald?

4 ---CROSS-EXAMINATION BY MR. McDONALD,

5 Q. Mr. Stechishin, this morning a
6 passing reference was made to rate of taper in the
7 freight rate structure. You will recall that that
8 was dealt with in the judgment of the Board in the
9 equalization of class rates which appears in the
10 judgment orders, regulations and rulings dated
11 March 15, 1955, No. 24A?

12 MR. STECHISHIN: I am familiar with it,
13 yes.

14 Q. Yes. And do you agree with this,
15 that tapering in a rate scale is measured by the
16 decline in revenue per ton mile as distance increases?

17 MR. STECHISHIN: I don't entirely agree
18 with that definition, Mr. McDonald.

19 MR. FRAWLEY: Is that definition in the
20 judgment?

21 MR. McDONALD: That is in the judgment.

22 Q. I might refer you to it on page 16
23 of that judgment, Mr. Stechishin, under the heading
24 of "Tapering of Scale". It says:

25 "Tapering in a rate scale is
26 measured by the decline in revenue per
27 ton mile as distance increases."

28 MR. STECHISHIN: Yes.

29 Q. Yes?

30 MR. STECHISHIN: And my answer was that I



1
2 do not entirely agree with it because there is a
3 decline in the revenue per ton mile as distance
4 increases with or without a rate of taper.

5 Q. But isn't that the effect of tapering
6 the rate scale; there is a decline in revenue per
7 ton mile as distance increases?

8 MR. STECHISHIN: It is inevitable.

9 Q. As the result of the rate of taper
10 taken by itself?

11 MR. STECHISHIN: Not solely because of
12 the rate of taper, but it is a result.

13 Q. It is a result, yes. In other words,
14 as distance increases, the revenue per ton mile
15 decreases?

16 MR. STECHISHIN: That is correct.

17 Q. Yes. And now I refer you to
18 Appendix B, to that order of the Board, Appendix B
19 scale, just for a few examples. If you take the
20 class 100 rates, for instance -- have you got the
21 reference on page 46?

22 MR. STECHISHIN: Yes, I have.

23 Q. The class 100 rates for 100 miles
24 get a rate of \$1.10, and then if you go to 1,000 miles
25 the same class 100, you get a rate of \$4.38?

26 MR. STECHISHIN: That is correct.

27 Q. So the rate for 1,000 miles is
28 approximately four times the rate for 100 miles?

29 MR. STECHISHIN: That is right, yes.

30 Q. Yes. And carrying it one step further,



1 the rate for 2,000 miles is \$7.98?

2 MR. STECHISHIN: That is right.

3 Q. Which is about seven times -- a little
4 over times as much as the rate for 100 miles?

5 MR. STECHISHIN: That is correct.

6 Q. Yes?

7 MR. STECHISHIN: But I would like to point
8 out that there is no rate of taper between 200 miles
9 and 1500 miles in the Board's class rate scale.

10 Q. Between 200 miles and 1500 miles?

11 MR. STECHISHIN: And that is shown on page
12 41. Actually, it is 200 and 2,000. It moves at
13 36 cents per 100 miles, so there is no rate of taper
14 in that portion of the class rate scale. Despite
15 that fact, the rate per ton mile declines very
16 substantially as the distance increases.

17 Q. That is the progressive decrease in
18 the rate per ton mile; is that right?

19 MR. STECHISHIN: That is right.

20 Q. But beyond say, 2,000 miles to the
21 3,000 miles, there is a rate of taper there?

22 MR. STECHISHIN: Between which?

23 Q. Between 2,000 and 3,000?

24 MR. STECHISHIN: 2,000 to 3,000, yes, sir,
25 that is correct.

26 Q. Now, I refer to page 8, paragraph
27 23. You make the statement there:

28 "Two principle causes for this
29 lesser increase in line haul costs appear
30



1
2 to have been dieselization and centralized
3 traffic control."

4 You are dealing here with your argument
5 that the line haul costs have not increased to the
6 same degree as the terminal costs?

7 MR. STECHISHIN: That is correct, yes.

8 Q. And two principal causes have been
9 dieselization and centralized traffic control. Now,
10 the costs you are referring to here; what are those?
11 Just the operating costs?

12 MR. STECHISHIN: Yes, I am referring here
13 to the out-of-pocket costs. I might point out that
14 I said "appear to have been" rather than saying they
15 were.

16 Q. I am just pointing out here, when
17 you take into consideration dieselization and centralized
18 traffic control, did you give any weight to the cost
19 of the capital invested in dieselization and centralized
20 traffic control?

21 MR. STECHISHIN: Frankly, Mr. McDonald, I
22 did not analyse this in that much detail. This is
23 taken from the various articles that I have read in
24 railroad magazines during the past year or two, and
25 they all seem to have carried forward the same
26 assumption. I haven't analysed it from a financial
27 point of view. I don't think I could.

28 Q. Just to get the picture complete,
29 while your operating costs on your line haul have
30 decreased on account of dieselization, centralized



1
2 traffic control, we must not lose sight of the fact
3 that we have to service this capital that has been
4 placed in dieselization and centralized traffic
5 control.

6 MR. STECHISHIN: It would certainly be
7 a factor to be considered.

8 Q. Then, page 15, paragraph 39 to 41,
9 where you speak of shipments from Florida and
10 California to New York and the difference in rates.
11 I am suggesting to you that this is a rail competitive
12 situation in the United States?

13 MR. STECHISHIN: It is a combination of
14 both.

15 Q. Rail and market?

16 MR. STECHISHIN: Rail and market.

17 Q. I just want to bring in that in the
18 United States you have different railways operating
19 from Florida to New York, from California to New
20 York, and both trying to get the traffic into the
21 same market. The railways are in competition with
22 each other there?

23 MR. STECHISHIN: I think I covered that
24 in the text later on in paragraph 44 and paragraph 45.
25 In paragraph 44, I say:

26 "In Canada, however, the maximum
27 figure stipulated must of necessity be
28 an arbitrary one and would lead to
29 complaints from those shippers who are
30 just under the maximum."



1
2 And then under paragraph 45:

3 "If Canada had an eastern railway
4 and a western railway meeting at, say
5 Winnipeg, a specific maximum increase
6 could be supported."

7 It is the very fact that we do not have
8 competing railways that this maximum such as is
9 applied in the United States does not enter into the
10 rate structure to the same extent.

11 Q. In other words, what you say is
12 there is railway competition among the railways?

13 MR. STECHISHIN: And that is in paragraph
14 39, where I say:

15 "Consequently, in addition to the
16 producers in one area competing with the
17 producers in the other areas, the
18 railways serving each area also compete
19 with the railways serving other areas."

20 Q. Yes. Well, that has an effect on
21 your rates from California and Florida, as far as the
22 fruit is concerned?

23 MR. STECHISHIN: Unquestionably.

24 Q. Yes. Then, on page 19, paragraph 48.
25 You say there:

26 "Any lasting solution must be
27 directed to achieving a proper balance
28 between the long haul shipper, the
29 intermediate shipper and the short haul
30 shipper. This can best be done by a



1
2 proper distribution of the increased
3 terminal costs and the increased line
4 haul costs."

5 I am suggesting to you that the rate of
6 taper alleviates that situation?

7 MR. STECHISHIN: On the contrary. I cannot
8 agree with that, no.

9 Q. You do not agree with that. How
10 would you do it, then? How would you get this
11 distribution?

12 MR. STECHISHIN: Well, I think we cover
13 that in our recommendation on that very section, Mr.
14 McDonald.

15 THE CHAIRMAN: That is your new formula?

16 MR. STECHISHIN: That is right, sir.

17 MR. McDONALD Q: You would put a flat
18 rate -- you would do it by putting a flat rate per
19 100 pounds or per ton?

20 MR. STECHISHIN: A flat rate per 100
21 pounds to reflect the increase in the terminal and
22 a percentage increase in the through rate to reflect
23 the line increase in costs.

24 Q. When you put this flat rate per
25 100 pounds or per ton to reflect the terminal costs,
26 the shipper with a haul of fifty miles would pay the
27 same amount of terminal costs as a shipper at 3,000
28 miles?

29 MR. STECHISHIN: Well, it would depend,
30 of course, on the rates. I am thinking of the



1
2 modification which we put in for the very, very short
3 haul and the low-rated traffic. But other than that,
4 yes we would.

5 Q. On page 21, paragraph 53, you are
6 dealing there with interline rates. Are you aware
7 of the fact that this matter, this point is scheduled
8 for hearing before the Board on October 4 on a
9 complaint of Western Chemicals Limited?

10 MR. STECHISHIN: I recall seeing that
11 notice of hearing, but it seems to me that was a
12 specific application for a specific traffic. We
13 are speaking here of the principle of interline
14 rates.

15 Q. I suggest to you that that case --
16 the principle is involved in that case?

17 MR. STECHISHIN: The same principle is
18 involved.

19 Q. Yes. Then, do you have any objection
20 to this principle or to the position of the Canadian
21 National: the Canadian National's position has been
22 that we object to making a large number of interline
23 rates on the possibility of getting some traffic, but
24 we are quite prepared to negotiate satisfactory
25 interline rates when any shipper requires this rate
26 service?

27 MR. STECHISHIN: Well, negotiation on
28 the part of the shipper and success on the part of
29 the shipper are not always parallel. I appreciate
30 that any shipper can go to the railways and ask for



1
2 an interline rate at any time he feels he needs it,
3 but that does not necessarily mean he is going to get
4 it.

5 Q. Do you know of any cases where they
6 have been granted?

7 MR. STECHISHIN: Yes, the scrap iron
8 movement is one.

9 Q. Yes.

10 Page 27, paragraph 61A. You are
11 dealing here with interchanges. Do I take it your
12 suggestion is that the railways should be compelled
13 to construct and operate more interchanges?

14 MR. STECHISHIN: I think, Mr. McDonald,
15 if you turn to the recommendations on that section
16 which appear on page 35:

17 "Where freight rates are based on
18 mileage they should be based between all
19 stations in Canada on the shortest through
20 rail mileage regardless of whether or
21 not it is necessary in the course of the
22 movement to transfer the goods from one
23 railway to another."

24 There is nothing in here that suggests
25 that the additional interchanges should be constructed.
26 It is a matter of rate making basis, not the actual
27 physical construction of interchanges that is
28 involved.

29 Q. On my first reading of it, I was
30 sort of under the impression that there is an argument



1 there for more interchanges and more interchanges
2 would involve the cost of construction and the cost
3 of operation.
4

5 MR. STECHISHIN: We are thinking here of
6 a rate making device rather than the physical
7 interchange itself. That is a matter of operating,
8 and we are quite prepared to leave the operating
9 to the railways. It is the rate structure that
10 results from this that we are concerned with.

11 THE CHAIRMAN: You want the short line
12 rates?

13 MR. STECHISHIN: Exactly. The same as
14 they have in the United States. They may not be
15 interchanges, but their rates are based on short hauls.

16 MR. McDONALD Q: Where would the
17 railways get the revenue to cover these longer hauls
18 that they would have at the short mile rates?

19 MR. STECHISHIN: It is built into the
20 rate structure, the same as it is in the United
21 States, Mr. McDonald.

22 Q. The railways only get their revenue
23 from one source. You would have to increase
24 rates to get enough to cover this?

25 MR. STECHISHIN: I do not think it
26 necessary follows that you would have to increase
27 rates. You might have to increase rates as they
28 are published, but there is a balancing factor.
29 It is an averaging-out, rather than an increase.

30 Q. I would like to just follow that a



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2 little further in your averaging-out. If the railways
3 are going to go to this expense of handling this
4 traffic over longer routes and charging for the short
5 line mileage, where do you make up the revenue to
6 cover the longer haul?

7 MR. STECHISHIN: There isn't -- there was
8 no thought in here of affecting the railways' revenue
9 one way or the other. The railways now will assess
10 freight charges on the actual mileage to one shipper
11 as to another shipper. It might be less. This is
12 a matter of averaging those two charges, so that you
13 come out to one covering all the cost. As far as gaining
14 additional revenue, I strongly suggest that this
15 proposal could result in the recovery of some traffic
16 from the trucks which the railways today are not
17 getting, and that in itself would improve the railways'
18 position.

19 Q. That is questionable.

20 COMMISSIONER GOBEIL: But if there is a
21 low rate from the trucks, would it seem that normally
22 there would be necessarily less revenue for the
23 railways?

24 MR. STECHISHIN: I don't think that follows
25 at all. Certainly our thinking was not that it
26 would adversely affect the railways. It is a question
27 of averaging the cost. One shipper pays today more
28 than another shipper for the same miles of
29 transportation. We are saying you reduce the rate
30 for the shipper by a little more, and possibly raise



1
2 the rate for the shipper paying a little less. And,
3 as an additional factor recover the traffic from the
4 trucks. In our recommendation on page 36, we point
5 out:

6 "It is our considered opinion that
7 if this recommendation is implemented, it
8 would have the effect of firstly, giving
9 equality of treatment between eastern and
10 western Canada..."

11 So, you are doing it in the east now
12 without apparently requiring a freight rate increase --

13 "...and secondly, equality of
14 treatment between those stations which
15 are located on the lines of a single
16 railway and those stations which have
17 had the good fortune to be located on
18 the lines of two or more railways."

19 There is nothing there about reducing
20 rail revenue.

21 COMMISSIONER GOBEIL: Could you give us
22 an instance where, afterall if they go on a short haul
23 with your system, would you give a case where someone
24 might pay more than they pay now?

25 MR. STECHISHIN: I think those shippers
26 who are moving between rail competitive stations might
27 have to pay a little more in the overall rate structure.

28 THE CHAIRMAN: Would you drive more short
29 hauls to the trucks?

30 MR. STECHISHIN: I do not think so. I think



1 you would recover some short haul traffic.

2 MR. McDONALD Q: I'd like just to
3 pursue that one step further, Mr. Stechishin. Have
4 you made any revenue studies to determine the effect
5 of this on the railways' position?
6

7 MR. STECHISHIN: Have I made any revenue
8 studies? No, I have not. I haven't the information
9 on which to make such a study.

10 MR. MAURO: Along with line, I wonder if
11 Mr. McDonald could supply the effects on revenues as
12 the result of this practice in eastern Canada, and
13 this might enlighten the Commission.
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2 THE CHAIRMAN: Well, the question is in
3 order, Mr. Mauro.

4 MR. McDONALD: Q. Your answer was that you
5 haven't made any revenue study?

6 MR. STECHISHIN: I haven't any information upon
7 which to make such a study.

8 Q. Now, on pages ---

9 MR. MAURO: I would like to put it in the
10 record: perhaps the C.N.R. would supply us the impact
11 on their revenues of this practice in eastern Canada.

12 MR. McDONALD: I am not in the witness box.

13 MR. MAURO: When they are available.

14 MR. McDONALD: Q. On pages 29 and 30 you
15 are dealing with the equalized scale. Wasn't this
16 question before the Board in the hearing on the
17 equalization of mileage commodity rates?

18 MR. STECHISHIN: I don't recall it, Mr.
19 McDonald.

20 Q. And the position of Canadian National is
21 that it is prepared to extend the scale if there is
22 demand for it but not for a paper rate only; and if you
23 refer to that case on January 6th and 7th, 1959, there
24 was a statement by C.N.R. counsel to this effect, that
25 as far as Canadian National is concerned they are
26 prepared to extend the scale if there is a demand for
27 it, but not for a paper rate only.

28 MR. FRAWLEY: The citation, Mr. McDonald?

29 MR. McDONALD: I have the date of it. I
30 haven't the citation. It is January 6th and 7th, 1959.



1
2 I could get that for you, Mr. Frawley.

3 MR. STECHISHIN: The point we raised here
4 was that as we read the section of the Railway Act,
5 they were required "to establish . . . a uniform
6 scale of commodity rates applicable on any system in
7 Canada. This has not been done." So it is not a
8 question of extending it, it is a question of doing it.
9 This could be covered by a rule; it doesn't require a
10 revision of the tariffs particularly.

11 Q. That is where you refer to the Act
12 where it says:

13 "to establish for an article or group of
14 articles for which mileage commodity
15 rates are specified, a uniform scale of
16 mileage commodity rates applicable on
17 its system in Canada . . ."

18 MR. STECHISHIN: That is correct.

19 Q. This matter was before the Board for
20 the purpose of establishing such a scale. I have it
21 here. It is headed "In the Matter of General Freight
22 Rates Investigation and of Section 336 of the Railway
23 Act, Freight Rates on Various Commodities, applicable
24 in part in Eastern Canada and part in Western Canada."
25 It is the Board's file No. 47828 and this was on January
26 6th and 7th, 1959. We will look it up and get the
27 reference for you. You will find the statement of
28 Canadian National, and the Board dealt with the matter
29 in that judgment.

30 MR. STECHISHIN: Excepting that the Board



1
2 doesn't make its decisions retroactive. The mere
3 fact that you might pay a certain rate in future cases
4 doesn't help the shipper in the shipment he has already
5 made.

6 Q. You are not suggesting that they might
7 publish a lot of paper rates that will never be used?

8 MR. STECHISHIN: No, I am not suggesting that
9 at all. I am suggesting the making of tariffs appli-
10 cable on movements between eastern and western Canada.
11 It is covered by one rule. One sentence could do it.

12 Q. That is your position.

13 So we will go to page 34, paragraph 77. You
14 are dealing there with the bridge subsidy and about the
15 routes existing between eastern Canada and western
16 Canada via the United States, and your last sentence
17 reads:

18 "As a result, the rail transport charges
19 paid by Canadian shippers became higher
20 than intended."

21 Would you explain what you mean by that?

22 MR. STECHISHIN: On page 35, Mr. McDonald,
23 about ten lines down:

24 "They now find --"

25 speaking of the shippers in western Canada --

26 " -- however, that despite the fact that
27 there has been no change in the physical
28 handling of the cars, switching charges
29 are unavoidable, regardless of whether
30 the movement from eastern Canada is by



1
2 Canadian Pacific or by Canadian National.

3 In consequence, the benefit to the shipper
4 from the bridge subsidy has been reduced
5 by the amount of the switching charge which
6 had not been assessed prior to institution
7 of the subsidy. By employing this
8 device the Canadian railways have lessened
9 for certain shippers the benefits intended
10 by Parliament and paid for by the national
11 treasury."

12 Q. But the shippers are getting the benefit
13 of the bridge subsidy?

14 MR. STECHISHIN: I didn't deny that. I said
15 "higher than intended".

16 Q. And what you mean is that they have to
17 pay switching charges for cars that are placed on the
18 Midland railway?

19 MR. STECHISHIN: Yes.

20 Q. And prior to the bridge subsidy the
21 rates over United States routes were competitive with
22 Canadian rates?

23 MR. STECHISHIN: Or vice versa.

24 Q. But after the application of the bridge
25 subsidy Canadian rates were lower than anything you
26 get by United States routes?

27 MR. STECHISHIN: Yes.

28 Q. And the Canadian railways had, before
29 the bridge subsidy, to meet a competitive situation with
30 the United States railways for delivery of cars on this



1
2 Midland railway? And therefore they absorbed the
3 switching chargers?

4 MR. STECHISHIN: Yes.

5 Q. And after the United States routes were
6 no longer competitive with them they assessed the
7 switching charges?

8 MR. STECHISHIN: Yes.

9 Q. Page 35, paragraph 80. That is where
10 you state:

11 "Where freight rates are paid on mileage
12 they should be based between all stations
13 in Canada on the shortest through rail
14 mileage regardless of whether or not it is necessary
15 in the course of the movement to transfer
16 the goods from one railway to another."

17 In other words, you are referring to some situations
18 in the United States where they have what are called
19 trick mileages?

20 MR. STECHISHIN: They are called trick
21 mileages by the railways. I have never heard of a
22 shipper referring to them in that way.

23 Q. What do the shippers call them?

24 MR. STECHISHIN: Short line mileage.

25 Q. I refer you to paragraph 116. I just
26 want to refer to an example you give there, paragraph
27 116, page 52. You give the first example where you
28 give normal rates prior to competition, and a little
29 before that you make an assumption:

30 "Assume in this case that the market at



1
2 Vancouver is 1,000,000 pounds of a
3 particular commodity, and that Toronto
4 and Winnipeg, in the absence of external
5 competition share equally in the market."
6 Then you follow that up with an example of 500,000
7 pounds ex Toronto at \$4, 500,000 pounds ex Winnipeg
8 at \$2.00?

9 MR. STECHISHIN: That is correct.

10 Q. Is your assumption on proper grounds?
11 Is your example correct? Why would Toronto get into
12 the Vancouver market at all if the freight charges be
13 twice as high as Winnipeg?

14 MR. STECHISHIN: Well, the Winnipeg shipper
15 might have inbound freight charges in addition to those
16 shown here.

17 Q. You haven't shown those in your example.
18 You have given the example of the freight charge from
19 Toronto to Vancouver of \$4, a freight charge from
20 Winnipeg to Vancouver of \$2. If those were the freight
21 charges, why would they take any traffic from Toronto?

22 MR. STECHISHIN: Freight is not the only
23 determinate of whether or not a man does the business.
24 I assume this market is shared fifty-fifty.

25 Q. What are the other conditions?

26 MR. STECHISHIN: Wage costs, material costs,
27 and, of course, inbound transportation charges.

28 Q. And I suppose supply, the quantity manu-
29 factured?

30 MR. STECHISHIN: That could also be under



1
2 material costs. Another factor could be the quality
3 of the finished product.

4 Q. The rate from Toronto being twice as
5 high, you assume they are both equally into that market,
6 but you say there are other factors that might be taken
7 into consideration. Then when you get down further
8 and the rate from Toronto to Vancouver is reduced below
9 the Winnipeg rate, why would it affect the shipments
10 from Winnipeg to Vancouver?

11 MR. STECHISHIN: Well, if the Winnipeg man
12 could only compete with the Toronto man by virtue of
13 a \$2 freight advantage, if you remove that advantage
14 then, of course, he cannot compete. Then you have to
15 change the other factors.

16 Q. The same factors are present in either
17 one of your examples?

18 MR. STECHISHIN: I was trying to separate
19 the freight rate content of the manufacturer's cost
20 from the other factors in here.

21 Q. You are trying to separate the freight
22 rate factor from the other considerations?

23 MR. STECHISHIN: Assuming all the other
24 considerations being what they are, this is the
25 situation prior to competition. The only factor
26 changed after this position is the freight rate
27 factor.

28 Q. But there must have been other factors
29 present in there when you gave your examples, when
30 half the business was going from Toronto at twice the



1
2 rate.

3 MR. STECHISHIN: The purpose of this table
4 was to show the effect on the railways' net revenues
5 and not the effect on the revenue of the people in
6 the market.

7 Q. I couldn't see why, if the freight rate
8 was the basic consideration in the question, whether
9 or not a shipper could get into a market, and if you
10 double the rates and they are each getting fifty-fifty
11 of the market, why would they be taking anything from
12 Toronto?

13 MR. STECHISHIN: The shipper from Toronto
14 could have reduced his price in order to get in at that
15 rate.

16 Q. He might have cut his price to \$2 a ton?

17 MR. STECHISHIN: Yes. But once that situa-
18 tion is reached, a further change means a further
19 adjustment.

20 Q. Doesn't the converse apply: if the rate
21 from Toronto to Vancouver is reduced the shipper at
22 Winnipeg may reduce his price?

23 MR. STECHISHIN: He may or may not.

24 Q. Then on page 54, paragraph 123, where
25 you make recommendations regarding the long and short
26 haul clause. I suggest to you that one thing this
27 would do would be to put more rigidity into the fixing
28 of rates.

29 MR. STECHISHIN: I don't think that follows.

30 Q. And then the railways on their competitive



1
2 pricing policies, if you put more restrictions on
3 their ability to make their rates, will it not affect
4 their ability to price competitively?

5 MR. STECHISHIN: I don't think so. I haven't
6 agreed to the first proposition, and if I haven't the
7 second one couldn't possibly follow. In paragraph 122
8 we make the statement that --

9 "Competitive rates, in the railways'
10 best interests should not merely be
11 confined to between the points where
12 competition operates but rather to the
13 common market or markets from the
14 various producing points."

15 In the railways' best interests, and that was the
16 interpretation which we placed on the recommendation
17 we made.

18 Q. But still this presupposes a reduction
19 in rates?

20 MR. STECHISHIN: It presupposes an increase
21 on the net revenue from these rates.

22 Q. You are recommending the lowering of
23 rates. If the rate from Toronto to Vancouver were
24 reduced, you want the rate from Winnipeg reduced,
25 notwithstanding the fact that there may be no competi-
26 tion?

27 MR. STECHISHIN: That doesn't presuppose
28 the lowering of rates. You could in the first place
29 reduce the rate from Winnipeg to Vancouver, but you
30



1
2 may decide to do it from Toronto. It is that
3 decision that is the factor.

4 Q. But isn't the decision to reduce the
5 rate compelled by competition?

6 MR. STECHISHIN: It is compelled, we feel,
7 by the loss of the traffic into a particular market.
8 The reasons for the loss of that traffic may be
9 probably incidental, but the point is you have lost
10 traffic into a market and then you have elected to
11 reduce the rate from a particular point to get that
12 traffic back to the railways.

13 Q. You say in the first recommendation that
14 the railways should not be allowed to select the
15 centres which will be allowed to compete in a given
16 market. Take this situation: a shipment of steel
17 from Sydney to Vancouver by water and the railways
18 put in a competitive rate from Nova Scotia -- Sydney
19 to Vancouver -- to meet that competition, are you
20 suggesting that they should extend this to other
21 intermediate points?

22 MR. STECHISHIN: No, I am suggesting that
23 if the railways put in a reduced rate from Algoma --
24 Sault Ste. Marie -- to Vancouver they would still have
25 had the traffic and made the additional revenue. It
26 is the selection of Sydney, rather than the
27 selection of Sault Ste. Marie, or Selkirk, Manitoba,
28 or any other point you may wish to name -- or even
29 Edmonton.

30 Q. Before there was any reduction in the



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rates was the steel moving from Algoma to Vancouver?

MR. STECHISHIN: I don't know what bearing that would have.

Q. I am just following out your formula. Before you reduced the Sydney rate was there any movement from Algoma or Sudbury to Vancouver?

MR. STECHISHIN: I have no idea. I can't see what bearing it has. If it wasn't moving from there it should have been, because they were making more money there than from Sydney.



1
2 Q. But what right has the railway to
3 tell the man in Vancouver that he must not buy from
4 Dosco and that he must buy from Sault Ste. Marie?

5 MR. STECHISHIN: We are trying to say that
6 you should not have the right to tell the shipper that.

7 Q. That is what we do not want to do.

8 MR. STECHISHIN: Our third recommendation
9 is:

10 "Normal relations between shipping
11 points to a given market should be generally
12 maintained."

13 Do not tell the shipper which one he should buy from,
14 or ship from; give him the proper relationship and let
15 him choose.

16 Q. Is that not what the railways did ---

17 MR. STECHISHIN: No.

18 Q. --- by putting in these competitive
19 rates, and by retaining that market for Dosco which
20 they did not have before?

21 MR. STECHISHIN: No. You are giving
22 Dosco a preferred position over other shipping points.

23 COMMISSIONER MANN: You wanted to retain
24 the traffic?

25 MR. McDONALD: Yes.

26 COMMISSIONER MANN: Otherwise the railways
27 become a planning agency, which the Board says they
28 must not be.

29 MR. McDONALD: That is right.

30 Q. Furthermore, I suggest, Mr. Stechishin,



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2 the railway has no right to adopt any course which
3 will force the purchaser to acquire his goods from
4 some other place just because it is a shorter haul for
5 us.

6 MR. STECHISHIN: I think you had better
7 repeat that question; I kind of lost you.

8 Q. Would you agree with me that the
9 railways have no right to force a purchaser in Vancouver
10 to acquire his goods from some other source of supply --
11 for instance, Sault Ste. Marie in the case of the
12 steel?

13 MR. STECHISHIN: We were not talking
14 about the railways' forcing a supplier or shipper to do
15 anything. We say: Make a proper relationship and
16 let the shipper make the proper decision. You are
17 saying: "We want the traffic back on the railroad
18 at the largest net profit to ourselves", and I think
19 you should so adjust your rate structure to realize
20 that result, and that anything else is just not
21 protecting your revenue position.

22 Q. But the retention of this traffic
23 which would go by boat via the Panama Canal, if it
24 is making a contribution to overhead, is something
25 the railway has to consider seriously?

26 MR. STECHISHIN: Yes, certainly, but you
27 should maximize that contribution to overhead.

28 Q. But, how?

29 MR. STECHISHIN: By giving a rate to an
30 intermediate point which would maximize the railways'



1 net revenue.

2
3 Q. Are there not many other factors
4 to be taken into consideration in this, Mr. Stechishin,
5 other than just rates?

6 MR. STECHISHIN: There are other factors
7 to be taken into consideration, but they are not
8 factors which the railways should consider. The
9 railways should consider maximizing their net revenue.

10 Q. But the railways must take into
11 consideration all these other factors besides the
12 net revenues of the railways?

13 MR. STECHISHIN: I certainly do not think
14 I would want to subscribe to that.

15 COMMISSIONER MANN: Do you mean things
16 like wages, power costs and water costs?

17 MR. McDONALD: Yes, and geography, and
18 whether the suppliers are available, and whether you
19 are going to go out and put in rates which will
20 encourage people to build a plant somewhere else and
21 put somebody else out of business.

22 MR. MAURO: Did you say "put people out of
23 business"?

24 MR. MACDOUGALL: We do not want to put
25 anybody out of business.

26 MR. McDONALD: No, but by giving rates
27 to the intermediate place, for instance, Sault Ste.
28 Marie, which was not in the Vancouver market, to
29 put Dosco out of business who were in the Vancouver
30 market.



1
2 MR. MAURO: Thank you.

3 MR. McDONALD: Then, may we go to pages
4 55 to 66 ---

5 MR. SINCLAIR: Just so that there may be
6 no misunderstanding, and so that this may be clear,
7 the position of Canadian Pacific is somewhat
8 different.

9 MR. MAURO: They are in the Vancouver
10 area.

11 MR. McDONALD: I made that statement on
12 an assumption. I do not know whether there is steel
13 moving from Sault Ste. Marie to Vancouver at this
14 time, or not, so I do not want that to be held against
15 me later on.

16 MR. STECHISHIN: There may be traffic
17 moving from Sault Ste. Marie.

18 MR. McDONALD: What I was doing was
19 dealing with your theoretical example, and not
20 conditions as they actually exist. Now, pages
21 55 to 66 deal with lake and rail rates. I think
22 that was touched upon by Mr. Frawley, and I think
23 just to make sure -- I did not get a note of whether
24 you had the reference to the case, but this was dealt
25 with in the case of the application of the Winnipeg Chamber
26 of Commerce in XLVIII J.O.R. & R., page 493 at page 514.
27 Will you not agree that this is a matter entirely
28 within the jurisdiction of the Board?

29 MR. STECHISHIN: No more so than any other
30 matter discussed in the brief is within the jurisdiction



1
2 of the Board.

3 Q. Lake and railway rates have been
4 dealt with by the Board?

5 MR. STECHISHIN: So have horizontal
6 increases.

7 Q. I am just referring to the terms of
8 reference of this Commission which say it is not to
9 deal with matters entirely within the jurisdiction of
10 the Board.

11 MR. MAURO: That is a matter of argument.
12 My friend and I will deal with that.

13 MR. McDONALD: Yes, I do not want to argue
14 that now.

15 Q. Now, on page 69, dealing here with
16 obligations and limitations, you state:

17 "In short, those operations of the
18 railways which result in deficits should
19 either be abandoned or if they are found
20 to be in the national interest, the
21 deficits incurred in their continuance
22 should be met by subsidy from the National
23 Treasury."

24 That is to say, taken in relation to a branch line,
25 if the Board should find that the railway is operating
26 that at a deficit, and an application is made to abandon it,
27 and if the Board should find that it is in the
28 national interest to continue to operate the line the
29 deficit should be met by a subsidy from the national
30 treasury?



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2 MR. STECHISHIN: That is right. I had
3 trouble in finding the place, Mr. McDonald. It is
4 near the bottom of the page there?

5 Q. Yes.

6 MR. STECHISHIN: Yes.

7 Q.. You can apply that principle to
8 branch lines, and you can apply the principle to a
9 passenger train operation where the Board found it
10 was in the national interest even though it was
11 operating at a loss that it should be continued in
12 the national interest then the loss should be met
13 by a subsidy?

14 MR. STECHISHIN: Yes; it is a general
15 statement of policy, I think.

16 Q. I wonder if you could take it one
17 step further, just to be consistent. Supposing this
18 Commission were to find that the railways are
19 sustaining a loss on the carrying of grain under the
20 Crow's Nest rates; should not that deficit be covered
21 by a subsidy from the national treasury?

22 MR. STECHISHIN: Just a moment while I
23 find the place in the brief. It follows right
24 along in the sentence:

25 "The province of Manitoba has
26 stated previously that the movement of
27 export grain from Manitoba is in fact
28 compensatory. Evidence on this phase
29 of the inquiry will be submitted at a
30 later date. What we now suggest is



1
2 that logic demands a similar approach
3 to all the deficit operations of the
4 railways. In sort, those operations..." ---

5 Q. I am not arguing about whether or
6 not that question is to be decided by this Commission,
7 or whether or not the movement of grain from Manitoba
8 is, in fact, compensatory, but I am asking if you
9 agree with me that if this Commission finds that that
10 movement is not compensatory and that there is a
11 deficit there, then this paragraph 155 would apply
12 to that?

13 MR. STECHISHIN: It would depend on the
14 nature of the finding. Our answer is if there is
15 any deficit there it is a branch line deficit rather
16 than a grain deficit. There might be some argument
17 as to which deficit it is, if there is one.

18 Q. But you say it is either a grain
19 deficit or a branch line deficit. Then, taking
20 either one, it should be met by a subsidy from the
21 national treasury?

22 MR. STECHISHIN: If it is felt to be
23 in the national interest, yes.

24 Q. And I think everybody pretty well
25 admits that it is in the national interest that these
26 grain rates should not be increased at the present
27 time?

28 THE CHAIRMAN: To the farmer.

29 MR. STECHISHIN: I cannot recall of
30 anyone saying otherwise. Of course, I might just



1 in
2 mention that/the way it is worded here I regard this
3 as a subsidy to the railways. The proposition put
4 before this Commission was that it was a subsidy to
5 the farmers through the railways.

6 MR. McDONALD: Q: But we are not arguing
7 on the play of words as to whom it is for here;
8 it is a subsidy. What we are asking for is payment
9 for work performed.

10 MR. STECHISHIN: For work performed, yes.

11 Q. Then, at page 93; you get into
12 incentive rates in this section.

13 MR. STECHISHIN: Yes.

14 Q. And rates for heavier loading in the
15 next section. Are you familiar with the incentive
16 rates which have been introduced by the railways?

17 MR. STECHISHIN: I think it is a step
18 forward. In fact, I quote from one of the tariffs
19 here at page 96.

20 Q. And the principle behind the putting
21 in of those incentive rates is that you get heavier
22 car loadings, and you reduce the per ton mile cost
23 to the railway of handling the product.

24 MR. STECHISHIN: Yes.

25 Q. And by giving the shipper a reduction
26 in rates you share that saving between the shipper
27 and the railway?

28 MR. STECHISHIN: Yes.

29 Q. Do you see anything wrong with that?

30 MR. STECHISHIN: I am a little critical of



1 the method of sharing. The lion's share goes to
2 the carrier.
3

4 MR. MACDOUGALL: It is not big enough?

5 MR. STECHISHIN: I mention in that last
6 sentence sentence in paragraph 199:

7 "In the above example, a 100 per
8 cent increase in weight from 30,000 lbs.
9 to 60,000 lbs. results in a 72 per cent
10 increase in revenue, from \$234 to \$402.
11 The cost data in Tables 22 and 23 indicate
12 the increase in costs to the railway is
13 only 12 per cent."

14 MR. McDONALD Q: Yes.

15 MR. STECHISHIN: So, out of the 72 per cent
16 additional revenue the shipper gets 12 per cent and
17 the railways get the balance.

18 Q. But following that a little further
19 you agree that the railways are attempting to increase
20 their net revenues?

21 MR. STECHISHIN: Oh, yes.

22 Q. And the shipper is getting a reduction
23 in rates?

24 MR. STECHISHIN: Yes, that is right. The
25 difference there is one of degree only.

26 Q. Then, pages 98 to 100 on demurrage;
27 this is a matter -- in demurrage the rates are
28 prescribed by order of the Board of Transport
29 Commissioners?

30 MR. SINCLAIR: And other people.



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2 MR. STECHISHIN: I would rather say they
3 are approved by the Board of Transport Commissioners.
4 The railways file the demurrage tariff and the Board
5 approves -- as a matter of fact, they do not even
6 approve it; they accept it because there have been
7 no complaints.

8 Q. And these rates are quite old?

9 MR. STECHISHIN: No, the rates are
10 quite recent -- about a year ago, I think.

11 Q. And the whole object of demurrage
12 is to keep the railway cars in operation and not have
13 them being used as warehouses?

14 MR. STECHISHIN: I am not saying for a
15 moment that you should remove the demurrage charges.
16 I hope you did not get that impression from the Brief.

17 Q. I am just leading up to something.

18 MR. STECHISHIN: Yes, that is the purpose
19 of demurrage,

20 Q. And then you have submitted something
21 else, as I understand it, that the shipper should be
22 given a bonus for releasing a car early.

23 MR. STECHISHIN: That is correct.

24 Q. But if the shipper will not release
25 the car when he has to pay a penalty would there be
26 any more reason why he would release it if he gets
27 a bonus?

28 MR. STECHISHIN: Yes. If that is not
29 so why do you put in a penalty charge at all?
30 The very existence of the tariff shows it to be



1 effective, otherwise you would not publish a demurrage
2 tariff.

3 Q. Then, your suggestion is that the
4 railways should get the greatest utilization of their
5 boxcar fleet. Would you agree, then, that the
6 demurrage rates should apply on the grain at the
7 Lakehead?

8 MR. MAURO: I do not think -- Mr.
9 Stechishin can answer that if he wishes, but it is
10 a matter ---

11 MR. SINCLAIR: Why do you not let him?
12 You are getting nervous.

13 MR. MAURO: I am not nervous. I want to
14 facilitate my learned friends who want to get on with
15 the work of this Commission. This matter has been
16 fully investigated, and the Governor-in-Council has
17 made a decision.

18 THE CHAIRMAN: What is your question, Mr.
19 McDonald?

20 MR. McDONALD: I have asked Mr. Stechishin
21 if this principle which he has enunciated here in
22 connection with demurrage should also apply to the
23 handling of grain at the Lakehead.

24 MR. STECHISHIN: The position of grain
25 at the Lakehead, Mr. McDonald, is, of course, somewhat
26 unique. The railways have certain privileges on the
27 movement of grain to the Lakehead which they do not
28 have anywhere else, and that is the principle of
29 diversion from one elevator to another. My understanding
30



1
2 is that a deal was entered into between the grain
3 trade and the railways away back in 1908 or 1911. I
4 am not sure of the details, but it has worked very
5 satisfactorily for thirty-five or forty years, and
6 today the nature of handling grain has changed and
7 the railways now want to assess demurrage on traffic
8 which they previously had felt it was in their
9 best interests not to assess demurrage on. It is
10 a controversial subject. I do not want to take sides
11 on it. It is a matter of record.

12 Q. My question is as to whether the
13 general principle should apply.

14 MR. STECHISHIN: There are other
15 considerations which do not enter into the picture
16 when you are dealing with other traffic -- I was going
17 to say "normal traffic", but it should be "other
18 traffic".

19 Q. You are familiar with this, that for
20 years there has been a great delay in the unloading
21 of cars at the Lakeheads?

22 MR. STECHISHIN: I have certainly heard
23 there is a delay in the unloading of cars at the
24 Canadian Lakehead, and I have also heard the grain
25 trade say that the additional demurrage charges would
26 not lessen that delay because it is something which
27 is not in their hands, which is not something that
28 occurs in the case of traffic other than grain.

29 Q. All the same, the railways are
30 deprived of collecting that penalty for the delay, and are



1 deprived of the use of the cars?

2
3 MR. STECHISHIN: I do not like the use of
4 the word "deprived" because it was an agreement
5 voluntarily entered into between the railways and the
6 grain trade. If they are deprived then they have
7 deprived themselves by entering into the agreement
8 themselves.

9 Q. I have not seen that agreement. What
10 is that agreement?

11 MR. STECHISHIN: I have heard a lot of it.

12 Q. Was it dealt with in the demurrage
13 case?

14 MR. STECHISHIN: I think it was in
15 reference to it. I understand no one has a copy of
16 the agreement.

17 THE CHAIRMAN: It must be another of
18 those which are in perpetuity.

19 MR. McDONALD: Q: Then, at pages 101 to
20 107 on the question of rate groups, do you agree
21 with me that the present group and block application
22 of rates is in accordance with the Board's
23 judgment on equalization?

24 THE CHAIRMAN: I think we will break now,
25 Mr. McDonald.

26 ---Short recess.
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2 THE CHAIRMAN: Order, please.

3 MR. McDONALD: Q. At the adjournment I
4 had come to page 101. Pages 101 to 107 deal with
5 the failure of the railways to provide rate groups.
6 I am suggesting to you, Mr. Stechishin, that the
7 present group and block application of rates is in
8 accordance with the Board's judgment on equalization;
9 is that correct?

10 MR. STECHISHIN: I would hate to think that
11 it wasn't.

12 Q. You agree with that?

13 MR. STECHISHIN: Yes, it was, certainly.

14 Q. And if this is extended, would it not
15 nullify the equalization scheme?

16 MR. STECHISHIN: Not one iota.

17 Q. Why?

18 MR. STECHISHIN:

19 Because you would still maintain the mileage
20 blocks, but between the key points in each group it
21 would not have the slightest effect on the Board's
22 judgment or on the Railway Act, as I read it, because
23 it does say:

24 "(b) may, in addition, specify class
25 rates between specified points on the
26 railway and when rates are established
27 in groups the rates to or from individual
28 points in the groups may be higher or lower
29 than the rates specified under paragraph

30 (a)."



1
2 Q. Yoursuggestion is that there should
3 be more to extend the present groups than the block
4 application of rates?

5 MR. STECHISHIN: Extension of the present
6 groups or just the extension of the group principle?

7 Q. Let me see your recommendation at page
8 107.

9 MR. STECHISHIN: The bottom of page 107:
10 "The Province of Manitoba recommends
11 that the railways be required to establish
12 class and mileage commodity rates on the
13 basis of rate groups, the rates between
14 these groups shall be based on the mileages
15 between key points."

16 Q. Yes, which would result in an extension
17 of the present group and block application?

18 MR. STECHISHIN: I do not quite know what
19 you mean by an extension of it.

20 Q. Well, there would be more groups?

21 MR. STECHISHIN: Oh, yes.

22 Q. Yes, an extension of the numbers of
23 groups and block applications. And what will this
24 accomplish, Mr. Stechishin? What is your suggestion?

25 MR. STECHISHIN: Well, Mr. McDonald, if
26 I was to read that I would pretty well have to go
27 through the entire text, but it is summarized, I
28 think, in paragraph 229.

29 "In summary, the provision of
30 rate groups does not affect adversely



1
2 rail revenues since the absorption of
3 mileages in one direction is compensated
4 by the increase in actual mileage in the
5 opposite direction. The existence of
6 rate groups ensures parity of rates for
7 neighbouring industries to all markets in
8 which they compete. Since this benefit
9 to industry can be achieved without reduc-
10 tion in rail revenues, the provision of
11 rate groups is in the interest of the
12 economy."

13 Q. And was your recommendation here --
14 was this put before the Board when they were dealing
15 with equalization?

16 MR. STECHISHIN: It was not put before the
17 Board by the Government of Manitoba, although I do
18 recall during the course of discussions before the
19 Board that a witness for the Canadian Pacific Railway
20 indicated that his railway, at least, was not
21 opposed to rate groupings. They were opposed to
22 what you referred to earlier as trip mileages, but
23 not rate groupings.

24 Q. I was wondering if this recommendation
25 had been put before the Board in the equalization case?

26 MR. STECHISHIN: The Board of Equalization
27 was discussing the mileage scale, not rate groups, as
28 such. This is not necessarily concomitant with
29 equalization.

30 Q. Is it a fact that the Board was against



1
2 rate groups?

3 MR. STECHISHIN: No, I didn't get that impres-
4 sion.

5 Q. On pages 108 to 111. Your recommendation
6 in paragraph 239 of your submission:

7 "It is our submission that a similar
8 clause be incorporated in the Railway
9 Act giving Canadian shippers these com-
10 bination rates as a right, not as a pri-
11 vilege subject to withdrawal."

12 You know that the railways are giving this privilege
13 now?

14 MR. STECHISHIN: I think I said that they
15 were doing it in certain specified instances.

16 Q. Where it is requested?

17 MR. STECHISHIN: Oh, I am sorry, I do not
18 agree with that. It has been requested on interna-
19 tional traffic, for example, and it certainly has not
20 been put in.

21 Q. And leaving out the international traffic
22 for the moment ---

23 MR. STECHISHIN: You are leaving out an awful
24 lot of traffic; of very much importance to Manitoba,
25 I might add.

26 Q. You have a different situation there.
27 When dealing with international traffic, you are dealing
28 with American?

29 MR. STECHISHIN: I do not think the use of
30 aggregate of intermediate would have any bearing on the



1
2 American lines.

3 Q. You are mainly concerned with the
4 American lines in this recommendation?

5 MR. STECHISHIN: That is the biggest exempt-
6 tion from the existing rate structure, although the
7 recommendation, again, and I think I have to emphasize
8 that, Mr. McDonald, does say that -- give the Canadian
9 shippers these combination rates as a right, not as
10 a privilege subject to withdrawal. We have had
11 unfortunate experiences in the last few years where
12 the railways have either amended their rules in such
13 a way to result in higher charges to the shipper or
14 in re-interpreting certain rules to result in higher
15 charges to the shipper.

16 Q. In other words, they were trying to
17 improve their net revenue?

18 MR. STECHISHIN: I think that is possibly
19 the answer, yes.

20 Q. And you see these changed rules and so
21 on do not always result in a reduction in the revenue?

22 MR. STECHISHIN: Well, I would say that it
23 would depend on the reason why the rules are being
24 changed.

25 Q. Yes.

26 Pages 112 to 115, "Mileage Factor in Rates."

27 This, again, deals with the block system.

28 I am suggesting to you that the railways have con-
29 sidered this before and it was impossible to see the
30 effects it would have on the rail revenue. Have you



1
2 given any consideration as to what effect this would
3 have on rail revenue?

4 MR. STECHISHIN: I have given some, but
5 as I say here we have not completed our studies on
6 this thing, and it is a rather important step; I
7 certainly appreciate that. I would be interested
8 in what effect it had on the express company's revenue
9 when they adopted it. But I haven't got the informa-
10 tion upon which to make such a study.

11 Q. Then, on page 121. There are two
12 pages 121 here, I notice. The Transit Privilege.
13 This right of milling in transit, or this provision
14 for milling in transit or processing; you recall it?
15 That is a privilege granted by the railways to
16 certain shippers for the purpose of keeping traffic
17 on their line?

18 MR. STECHISHIN: I regard it as such, yes.
19 I am not entirely in agreement with the word "privileges"
20 but that is definitely known by that term.

21 Q. Then, on page 126, on the question of
22 terminal switching. I might state that the position
23 of the Canadian National on that -- I think you will
24 agree that this is a big problem running all across
25 the country in all the ten provinces?

26 MR. STECHISHIN: I believe that is correct,
27 yes.

28 Q. Because the present switching order is
29 the same basic rate across the country?

30 MR. STECHISHIN: Well, the present switching



1
2 order was merely a minimum on the mileage at which the
3 railways were requested to do switching.

4 Q. Free switching up to four miles?

5 MR. STECHISHIN: Yes, they required them to
6 do it up to four miles.

7 Q. You are suggesting something should be
8 done to extend that free switching area?

9 MR. STECHISHIN: Yes, the order was put in
10 at a time when I understand the average distance between
11 stations in Canada was about eight miles, so it covers
12 virtually every possible switch that would be necessary.
13 Since that date, 1918, there has been tremendous change
14 and we think the order is obsolete.

15 Q. I might see if you agree with our
16 position. The Canadian National's general position on
17 switching: it would be glad to cooperate with any study
18 of this problem, but the problem does have wide rami-
19 fications competitively between railways, and also
20 in respect to rail revenues. We should say we are
21 glad to have Manitoba's views, and in consideration
22 of this problem in the future they will be carefully
23 examined. Certainly the question has been adopted
24 actively by the railways and the shippers and it is
25 a matter which will be dealt with finally by the Board,
26 as it falls within its jurisdiction.

27 MR. STECHISHIN: I cannot but agree with
28 anyone who is glad to receive our suggestions.

29 Q. This is a matter which cannot be dealt
30 with in a short time. It is a study, you will agree,



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2 from one end of the country to the other to see how
3 it affects the railways, how it affects the railways'
4 revenues; how it affects the shippers -- and the
5 different interests involved.

6 COMMISSIONER MANN: Has Canadian National
7 undertaken such a study on its own behalf for its own
8 records?

9 MR. McDONALD: No, I do not think so; not
10 at this time -- not up to the present time.

11 COMMISSIONER BALCH: Would the wage contracts
12 enter into that argument, too, Mr. McDonald?

13 MR. McDONALD: Yes, that is another thing
14 that would have to be looked into. It is very in-
15 volved -- a matter like this.

16 COMMISSIONER BALCH: The change between yard
17 and road would enter into that?

18 MR. McDONALD: Yes, between yard and road
19 switching and so on, and the distance before it becomes
20 yard switching.

21 COMMISSIONER BALCH: Yes.

22 MR. STECHISHIN: Again, we might point out
23 we are interested in the rate aspect of this rather
24 than the operational aspect. We are talking here
25 about how the freight charges are determined that the
26 shipper must pay. It is immaterial to the shipper
27 whether it is a yard or a road crew that does it.

28 MR. McDONALD: And the railways must con-
29 sider what their costs will be and what their net
30 revenues will be.



1
2 Thank you very much, Mr. Stechishin, for
3 your recommendations put in by Manitoba in this brief.
4 They are worthy of very serious consideration.

5 MR. STECHISHIN: Thank you, Mr. McDonald.

6 THE CHAIRMAN: Before calling on you, Mr.
7 Sinclair, Mr. Cooper has a ruling to read.

8 MR. COOPER: The Commission has ruled that
9 the following public hearings should be announced for
10 the months of October and November, 1960.

11 Commencing October 11th, the submissions of
12 the Province of Alberta will be heard on issues other
13 than the costing of grain. After the conclusion of
14 cross-examination by counsel, the Commission will
15 proceed to hear the submission of the Canadian Pacific
16 Railway, dated September 15, 1960, and filed September
17 14th, 1960, and cross-examination by other counsel.

18 The Canadian National Railways' submission
19 dated September 16th, 1960, and filed September 16th,
20 1960, will then be received in evidence and cross-
21 examination on it will proceed.

22 The time assigned for this portion of the
23 public hearings is three weeks. The Commission has
24 allotted the period commencing November 7th, 1960,
25 and ending November 25th, 1960, for hearing the cases
26 of the Provinces of Alberta and Manitoba jointly and
27 the Wheat Pools and UGG jointly on the issues involved
28 in the cost of moving grain. The joint provincial
29 case will be heard first with examination in chief and
30 cross examination. Following the completion of



1
2 the cross-examination, the joint case put forward
3 by the three provincial pools and the UGG will proceed
4 in the following order:

5 1. The submission of the deferred portion
6 of Volume I;

7 2. The submission of Volume II;

8 3. Cross-examination on both parts of the
9 case.

10 THE CHAIRMAN: I just want to add this: the
11 one thing that is like a pall over this whole Commission
12 is this costing technique. I read the submission of
13 Mr. Borts and it terrifies me. I hope we don't get
14 bogged down in the quagmire of mathematical calculations
15 which many of us do not understand. I implore
16 counsel to try with the experts to somehow shorten
17 the matter of this costing technique.

18 Mr. Sinclair?
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CROSS-EXAMINATION BY MR. SINCLAIR.

Q. Mr. Stechishin, a number of people have referred to one part of your brief in particular, and that is on page 19, paragraph 48, and in there you say, having to do with general increases cases:

"Any lasting solution must be directed to achieving a proper balance between the long haul shipper, the intermediate shipper and the short haul shipper."

Now, you have left out, I suggest, an important matter which I think you must have done by inadvertence, and I suggest that the important matter is this, and I want to know if you agree with me: that in addition to the shipper interest that you have stated there is the very important matter of preserving the revenues of the railways and preserving their ability to secure the increased revenue required as put forward in the application.

MR. STECHISHIN: That was an oversight, Mr. Sinclair. We certainly had that very much in our minds.

Q. You go on to say you approach this by saying it "can best be done by a proper distribution of the increased terminal costs and the increased line haul costs". Correct?

MR. STECHISHIN: Yes.

Q. Now, terminal costs vary by terminals, don't they?

MR. STECHISHIN: That is correct.



1
2 Q. And terminal costs depend upon the
3 movements of goods. For instance, let's go to a
4 part of the country we both know well. Starting from
5 Winnipeg and moving to Calgary, how many terminal
6 costs do you think would be involved in a shipment
7 on Canada Pacific?

8 MR. STECHISHIN: I view the terminal
9 costs in the general sense as they are viewed in
10 the United States where they are averaging terminal
11 costs and not picking out individual terminal costs.

12 Q. And would you average the terminal
13 costs of Canadian Pacific and Canadian National or
14 would you average them only on one railways?

15 MR. STECHISHIN: That would depend on the
16 Board. The Board at the present time doesn't average
17 the terminal costs of the two railways, they base it
18 on the C.P.R. I don't think that is as important
19 as the fact that some measure be established.

20 Q. If you were going to set your
21 increases because of changing terminal and line
22 haul costs, how would you apply your principle to a
23 general increase caused by a change in income taxes?

24 MR. STECHISHIN: Well, I have always
25 regarded income tax as the government's share of
26 profit and not as expense.

27 Q. It is a railway expense taken into
28 account in fixing freight rates specifically. How
29 would your principle apply there?

30 MR. STECHISHIN: I have difficulty in



1
2 visualizing the Board giving an increase on the fact
3 of an increase in income tax.

4 Q. Well, let me give you an example.
5 In 1947 the income tax rate was 35 per cent; it is
6 now 50 per cent. That is a change of many millions
7 of dollars to the railway expenses of Canadian
8 Pacific which has been taken as a yardstick in fixing
9 general revenue cases. Frankly, your plan won't work
10 applied to that.

11 MR. STECHISHIN: No, I can't agree. I
12 think it is a highly unlikely event that a freight
13 rate increase be tied directly to an income tax
14 increase. We have the method adopted by the Board
15 in distributing constant costs over the system. What
16 portion of that cost is assigned to terminal costs
17 and what portion is assigned to line haul costs, and
18 then that proportion would determine the division.

19 Q. You are taking a relationship
20 established of terminal costs to line haul costs
21 irrespective of the fact if the costs involved arose
22 from those elements or not; is that correct?

23 MR. STECHISHIN: No, that is not correct.

24 Q. Say that the general revenue case
25 involved an increase caused, a general increase caused
26 by a change in commodity mix. How would your plan
27 apply then?

28 MR. STECHISHIN: A change in commodity
29 mix would certainly be reflected in line and terminal
30 costs, because different commodities incur either



1
2 a greater or lesser line haul cost or terminal cost
3 as the case may be.

4 Q. You wouldn't rely on your averaging
5 then?

6 MR. STECHISHIN: Again I have to come to
7 the American practice where the costs are based on
8 the individual characteristics -- not perhaps on
9 every movement. But if you have long haul, heavy-
10 loaded goods, you are going to change your terminal
11 costs and line haul costs.

12 Q. Do you know of any general revenue
13 case in the United States where the increase was
14 determined on the relationship between terminal and
15 line haul costs?

16 MR. STECHISHIN: I think this is a new
17 idea.

18 Q. Do you know of any increase on that
19 basis?

20 MR. STECHISHIN: I don't know of any. Oh,
21 there was an increase that came in of six cents on
22 import and export traffic which was generally
23 considered to apply, to cover additional terminal
24 charges.

25 Q. But dealing with commodities as
26 a whole, it hasn't been worked on that basis?

27 MR. STECHISHIN: This was commodities
28 as a whole. I don't know of anything that was
29 exempt, except wheat. X212 was a general revenue
30 case.



1
2 Q. What I am saying to you is this.
3 Let's take Winnipeg and a shipment moving 50 miles
4 out of Winnipeg. Under your plan that would take
5 a percentage increase plus a flat increase or a
6 percentage increase, whichever made the maximum.

7 MR. MAURO: 153-E, Mr. Chairman, 50-mile
8 haul.

9 MR. STECHISHIN: It would be the lower of
10 the two, depending on the rates.

11 Q. Whichever made the higher charge
12 would be what you want?

13 MR. STECHISHIN: No, I said the lower charge
14 in this case.

15 Q. And under your example you said that
16 it would be as you worked it out, 40 per cent.

17 MR. STECHISHIN: That was merely an
18 illustration. That was a figure I pulled out
19 of the air to illustrate a point. It could be
20 five, it could be ten, it could be sixteen.

21 Q. Assuming that there would be a
22 general increase of 20 per cent, using your example
23 further, if it was ten cents plus $3\frac{1}{2}$ cents per 100
24 pounds and then for short haul traffic it would be
25 40 per cent. Now, those are the calculations that
26 you put into the record. Let me ask you whether
27 you think the shipper of limestone from Stonewall
28 to Winnipeg would be happy about having his rates
29 increased under your plan by 40 per cent.

30 MR. STECHISHIN: I have never heard of a



1 shipper being happy about any increase.

2 Q. Do you think he would be happy having
3 it increased by 40 per cent or the horizontal method?

4 MR. STECHISHIN: If he were a shipper he
5 would favour the horizontal method.

6 Q. Do you think the shipper in Manitoba
7 would be happy under your scheme?

8 MR. STECHISHIN: It would depend on the
9 rate he was paying.

10 Q. I give you a movement from Morden
11 on Canadian Pacific to the Manitoba sugar beet plant
12 in Winnipeg.

13 MR. STECHISHIN: What rate?

14 Q. I suggest that your basis would be
15 higher.

16 MR. MAURO: If you could give us a rate
17 it would be more helpful.

18 MR. STECHISHIN: The whole formula here
19 is based on the rate, not on the haul.

20 Q. The length of haul reflects the
21 rate, does it not?

22 MR. STECHISHIN: I know of a thousand
23 mile haul which has a lower rate than a 100 mile haul.

24 MR. MAURO: Perhaps my friend could give
25 us a rate.

26 MR. SINCLAIR Q: What you are interested
27 in, you say, is preserving the net revenue position
28 of the carriers.

29 MR. STECHISHIN: That is correct, sir.
30



1 Q. And are you suggesting that by
2 following your method the carriers will secure more
3 short haul traffic than they are now securing?

4 MR. STECHISHIN: I suggest they will
5 secure more long haul traffic.

6 Q. Are you suggesting they would secure
7 more short haul traffic, and for that I am going
8 to accept your definition of short haul being anything
9 under 200 miles.

10 MR. STECHISHIN: I don't think it will
11 have an effect one way or the other, on less than
12 200 miles.

13 Q. You think they will not gain or
14 lose?

15 MR. STECHISHIN: That is correct.

16 Q. You have made a calculation under
17 your basis, you indicated, to test the effect of
18 it on the revenue position of the carriers, based
19 on the last 17 per cent increase.

20 MR. STECHISHIN: I am sorry, I didn't say
21 that I made it to test the revenue position; I made
22 the calculation to develop the formula. I based
23 it on revenue results which the railways said they
24 would obtain from the 17 per cent application, the
25 19 per cent application.

26 MR. SINCLAIR: I will ask my friend if
27 he will have a look at that application, and I
28 think he indicated on Friday last that it was
29 available.
30



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2 MR. MAURO: I also indicated when my
3 learned friend Mr. Cooper was discussing that Mr.
4 Stechishin would be pleased to put those figures
5 into the record and discuss them since they are his
6 working papers. He has the calculations there
7 and he is prepared to do that.
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2 MR. SINCLAIR: Well, I haven't seen them
3 and I would like if they could be made available to me.

4 MR. MAURO: I would prefer these items that
5 are of importance to my learned friend -- perhaps they
6 would be best put in by Mr. Stechishin on the record,
7 available to everyone, and he can put his explanations
8 with them.

9 MR. SINCLAIR: Maybe they could be filed
10 as an exhibit.

11 MR. STECHISHIN: I only have the one copy
12 and it is not too legible.

13 MR. MAURO: We have put in our exhibits.

14 THE CHAIRMAN: How long are they?

15 MR. STECHISHIN: There is a fair number
16 of calculations, but as to the length, it is not what
17 you would call a long document. This was only to
18 arrive at some figure.

19 THE CHAIRMAN: It strikes me we will have
20 them copied and filed.

21 MR. MAURO: Filed as what?

22 THE CHAIRMAN: As exhibits.

23 MR. MAURO: Oh, no; I will put my own
24 exhibits into the record, sir, as I see fit, and if
25 this is in answer to cross-examination I want Mr.
26 Stechishin to answer fully. I don't see why we should
27 be required to put in as exhibits material that we do
28 not think is relevant to the points we are making.

29 THE CHAIRMAN: Well, this is cross-examination,
30 of course.



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2 MR. MAURO: He has asked a question and Mr.
3 Stechishin is ready to answer it and he has the material
4 there.

5 MR. SINCLAIR: I do not know why my friend
6 is taking this position, but my only purpose in it is
7 to have an opportunity to see whether Mr. Stechishin
8 in making his proposal and in working it out in his
9 calculations did make allowance for the effect on
10 the net revenue position of the Canadian Pacific based
11 on specific facts that he said he had. It does seem
12 to me that if these figures are in his hands, and,
13 as you suggested, could be filed, I could look at them
14 and maybe they are all right, or maybe they are not.
15 Maybe the best way for me to deal with them is by
16 calling some witness to deal with them, but until I
17 see them, I don't see why I should go on asking
18 questions.

19 THE CHAIRMAN: Well, you could see them during
20 the evening.

21 MR. SINCLAIR: Thank you, sir. I will go
22 on to another point now, and I will come back to this
23 as I am instructed.

24 Q. I will then ask you this, Mr. Stechishin:
25 it is another subject; it is a subject which you term
26 long and short haul. You made it clear in so far as
27 receivers are concerned as distinguished from shippers
28 that you were not quarrelling with the present practice?

29 MR. STECHISHIN: That is correct.

30 Q. In regard to shippers from intermediate



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points, the effect of your proposal would be to
introduce into the Canadian freight rates structure
the recognition of internal market competition;
correct?

6

MR. STECHISHIN: Yes.

7

8

Q. Do you think it is to the benefit of the
Canadian economy as a whole to have the railways offset
geographic disadvantages of particular shippers?

10

MR. STECHISHIN: No.

11

12

Q. Is not the effect of recognizing in-
ternal market competition a means of using rail rates
to offset geographic disadvantages?

13

14

MR. STECHISHIN: No, sir.

15

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Q. Do you think that Manitoba potatoes
from southern Manitoba should be moved at rates that
would enable them to compete with Netted Gems produced
in southern Alberta in the Alberta market?

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MR. STECHISHIN: They should have the same
rate advantages that are given to the Alberta potatoes
going into that same market.

22

Q. I didn't ask that.

23

MR. STECHISHIN: That is as far as our brief goes.

24

25

26

27

Q. I asked you if you felt that the rate
structure of Canada should be fixed so as to enable
potatoes produced in Manitoba to compete with potatoes
produced in southern Alberta in Alberta markets?

28

29

MR. STECHISHIN: We have not asked that
anywhere in our brief.

30

Q. But the principle of recognizing



1
2 internal market competition can do that, can it not?

3 MR. STECHISHIN: Our third recommendation
4 reads:---

5 Q. Never mind ---

6 MR. MAURO: Just a moment. He will answer
7 the question as he sees fit -- not as you request it.

8 MR. SINCLAIR: I am surprised. Here is a
9 witness who obviously is discussing the freight rate
10 structure, and I know what is in his brief ---

11 MR. MAURO: Well, we want to keep refreshing
12 you.

13 THE CHAIRMAN: Let us have the question and
14 the answer.

15 MR. MAURO: Go ahead.

16 MR. STECHISHIN: At page 54, the third
17 recommendation:

18 "Normal relations between shipping points
19 to a given market should be generally
20 maintained. In other words, the rate
21 from Winnipeg to Vancouver should be
22 lower than the rate from Toronto to
23 Vancouver on the same commodity.
24 Similarly, the rate from Winnipeg to
25 Toronto should be lower than the rate
26 from Vancouver to Toronto on a given
27 commodity."

28 Certainly, the rate from the Alberta area to the
29 Alberta market should be lower than the rate from the
30 Manitoba area to the Alberta market on potatoes.



1
2 MR. SINCLAIR: Q. That is not recognizing
3 internal market competition, is it?

4 MR. STECHISHIN: I think it is.

5 Q. You do?

6 MR. STECHISHIN: Yes, certainly.

7 Q. Well, let me ask you this: if there is
8 no carrier competition between Winnipeg and Vancouver
9 that justifies a rate of \$2, but there is carrier
10 competition from Montreal to Vancouver that is so
11 justified, then what is the basis, other than internal
12 market competition, that supports your proposition?

13 MR. STECHISHIN: The fact that the reduction
14 in the rate from Winnipeg to Vancouver improves the
15 rail net revenue.

16 Q. But the only basis the railway, under
17 the proposition that I gave you, could justify that
18 would be by acknowledging the principle of internal
19 market competition?

20 MR. STECHISHIN: Possibly you had better
21 define what you interpret as "internal market competi-
22 tion." Maybe we are at odds there.

23 Q. Internal market competition is by
24 recognizing and equalizing rates into a common market
25 from divers shipping points of unequal distance.

26 MR. STECHISHIN: Well, we haven't asked for
27 equal rates. We have asked for normal relations in
28 rates.

29 Q. You have asked for lower rates?

30 MR. STECHISHIN: Normal relations to be



1
2 maintained. If they start lower they remain lower,
3 and if they start higher they remain higher.

4 Q. Let me ask you this, and I give you
5 the example again: I took an example from Montreal
6 to Vancouver of \$2; the basis of that rate is carrier
7 competition; there is no carrier competition between
8 Winnipeg and Vancouver that justifies a \$2 rate.
9 What is the justification for the \$2 rate from
10 Winnipeg, or do you want lower than \$2?

11 MR. STECHISHIN: We want a rate which would
12 maximize the railway net revenue.

13 Q. But on what basis would the railway
14 put in a lower than normal basis of rates, from
15 Winnipeg to Vancouver?

16 MR. STECHISHIN: That they make more money
17 by so doing.

18 Q. Is it a principle that the railways can
19 just take the points Winnipeg to Vancouver and put a
20 rate in because in so doing it maximizes its revenue?

21 MR. STECHISHIN: I didn't suggest they
22 single out Winnipeg as the point, and again paragraph
23 122:

24 "Competitive rates, in the railways'
25 best interests, should not merely be
26 confined to between the points where the
27 competition operates but rather to the
28 common market or markets from the various
29 producing points." -- not just Winnipeg.
30



1
2 Q. But I am going to make an example of
3 Winnipeg to see how it works -- versus Montreal.
4 You see, Mr. Stechishin, the point I make with you is
5 this, and I want to see if you agree: you can't deal
6 with a matter such as this by broad statements. You
7 must analyse each individual movement; that is neces-
8 sary for freight traffic analysis, isn't it -- each
9 individual movement must be looked at?

10 MR. STECHISHIN: Yes.

11 COMMISSIONER MANN: I thought I was follow-
12 ing along quite nicely, but I have hit a snag, and
13 could you help me on this, Mr. Sinclair?

14 MR. SINCLAIR: I shall certainly try.

15 COMMISSIONER MANN: Take the case of an
16 agreed charge that is written, as we have heard from
17 Mr. Roberts, from say, Montreal or A and B points to
18 Vancouver to meet import competition.

19 MR. SINCLAIR: This is a different matter.
20 I have put it on carrier competition.

21 COMMISSIONER MANN: Well, I would like to
22 discuss that now for a minute. What happens in a
23 case like this: is there justification for putting
24 an agreed charge on, say, not from groups A and B to
25 Vancouver, but from Winnipeg to Vancouver?

26 MR. SINCLAIR: Quite so, sir; there would
27 be complete justification for that, as I understand
28 the application of rate making, and that is why I was
29 careful to take carrier competition, because the rules
30 change with respect to market competition, and by that



1
2 I mean external market competition, and under the cir-
3 cumstances that you have put forward, Mr. Commissioner
4 Mann, the shipper at Winnipeg, in my opinion, could
5 come under the agreed charge.

6 COMMISSIONER MANN: I see.

7 MR. MAURO: Not a lower rate.

8 THE CHAIRMAN: It would be a matter of con-
9 tract.

10 MR. SINCLAIR: It would be a matter of asking,
11 possibly, for a fixed charge if he were not the original
12 party to the contract, or didn't want to accept all
13 the terms.

14 THE CHAIRMAN: Thank you very much.
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2 MR. SINCLAIR Q: Now, Mr. Stechishin,
3 I want to take you back to the place where the
4 rate is fixed by carrier competition, and I suggest
5 to you that if your proposal became effective the
6 railways would then in all likelihood have to have
7 another direction saying that internal market
8 competition is to be recognized by carriers in
9 fixing rates.

10 MR. MAURO: The second.

11 MR. SINCLAIR: Do you want to make an
12 answer, Mr. Mauro?

13 MR. MAURO: I have made my answer.

14 MR. SINCLAIR: Do you want to answer, then?

15 MR. MAURO: No.

16 MR. SINCLAIR: Would you read Mr.
17 Stechishin the question, Mr. Reporter?

18 THE REPORTER:

19 "Q. Now, Mr. Stechishin, I want to take
20 you back to the place where the rate is
21 fixed by carrier competition, and I
22 suggest to you that if your proposal
23 became effective the railways would then
24 in all likelihood have to have another
25 direction saying that internal market
26 competition is to be recognized by
27 carriers in fixing rates."

28 MR. STECHISHIN: I think our recommendation
29 No. 2 on page 54 says just that:

30 "When a competitive rate is "



published..." ---

MR. SINCLAIR: What is the page?

MR. MAURO: Page 54, No. 2.

MR. STECHISHIN:

"When a competitive rate is published from a more distant point, the intermediate points, in our case Manitoba, should be given a rate reflecting its shorter haul to the same destination, that is a rate reflecting its geographic location."

MR. SINCLAIR Q: And the only justification for that would be market competition?

MR. STECHISHIN: The primary justification for it, in our estimation, is that it would maximize the railways' net revenue, which seems to be a major problem before this Commission.

Q. I am asking you the justification you would have. Would it be internal market competition, or if it is not that, what is it?

MR. STECHISHIN: That is right -- maximizing the rail revenue.

Q. Mr. Stechishin, let you and I not try to fence about things, because that is not what I am here for. Are you suggesting that it should be a fundamental principle of the railway freight rate structure that the railways have no obligation to shippers; that their only obligation is to maximize their net revenue in every case? Is



1 that the position of Manitoba?

2 MR. STECHISHIN: Not solely. It is a
3 combination of both. I am not suggesting you give
4 this intermediate rate to only Manitoba. I say
5 once the competitive situation arises it then has
6 to be extended to all intermediate points, and by
7 so doing you maximize your next revenues, and you
8 benefit the shippers.

9 COMMISSIONER GOBEL: Mr. Stechishin,
10 I am not clear on this \$2.00 business that Mr.
11 Sinclair brought up. There would be \$2.00 from Montreal
12 into Vancouver on account of competition, but you
13 say if Winnipeg got the same rate the railways would
14 make more money -- that is, if they got the same
15 rate from Winnipeg to Vancouver?

16 MR. STECHISHIN: Absolutely. They are
17 moving the goods half the distance, and they are
18 getting the same money. They would certainly make
19 more net profit than they would on the movement from
20 Montreal to Vancouver.

21 THE CHAIRMAN: Is there traffic there to
22 move?

23 MR. STECHISHIN: If the traffic moves.

24 THE CHAIRMAN: I cannot understand why
25 it should be Montreal instead of Winnipeg.

26 MR. MAURO: Neither can we.

27 MR. SINCLAIR Q: Let me put it this
28 way, Mr. Stechishin, your sole concern in this
29 proposal is to help the railways to increase their net
30



1
2 revenues?

3 MR. STECHISHIN: It is not my sole concern.
4 I said there was a dual interest in here -- that of
5 the shipper and that of the carrier.

6 Q. And do you think the railways by
7 not applying these rates to intermediate points are
8 not acting in their best interests?

9 MR. STECHISHIN: I did not say "to
10 intermediate points."

11 Q. If I did not say "from intermediate
12 points" then I certainly meant to. If they do
13 not they are not acting in their best interests; is
14 that your position?

15 MR. STECHISHIN: That is my position, yes.

16 Q. In a number of places in your
17 appearance before this Commission -- and I made a note
18 of this this morning because I thought you expressed
19 it in one way -- you said that the railways were not
20 putting sufficient emphasis on the net revenues. So
21 that Mr. Mauro will be happy I will also refer to
22 the way you put it in your submission. It is
23 at page 2:

24 "...all too often in actual practice
25 the railway's primary concern is with
26 gross revenues as opposed to net
27 revenues."

28 Now, Mr. Stechishin, Canadian Pacific rate making
29 has been in the hands of the following for the last
30 twenty years -- Mr. Jefferson, Mr. Buckingham, Mr.



1
2 Edsforth, and Mr. Roberts. They have been the
3 key rate men for the Canadian Pacific for the last
4 twenty years; would you agree?

5 MR. STECHISHIN: Yes, sir.

6 Q. Do you know them?

7 MR. STECHISHIN: I know them all.

8 Q. Are you suggesting they are men who
9 are not concerned with net revenues; that they are
10 men who are more concerned with gross revenues as
11 opposed to net revenues? Is that your suggestion to
12 this Commission?

13 MR. STECHISHIN: There have been occasions
14 when they have certainly given me that impression.

15 Q. Are you suggesting seriously to
16 this Commission that these people are not interested
17 in making net revenues?

18 MR. STECHISHIN: I did not say they were
19 not interested. I say the attention was on gross
20 revenues instead of on net revenues.

21 Q. Can you give me one example?

22 MR. STECHISHIN: There is an example in
23 the record, in the presentation of the Winnipeg
24 Chamber of Commerce before this Commission, where
25 there was a movement of 700 tons of steel, as I
26 recall it, and the shipper asked for a lower rate
27 in return for a heavier loading. He was prepared
28 to use fourteen cars to move the traffic instead of
29 46 cars which was permitted by existing tariffs.
30 He got absolutely nowhere in his negotiation with the



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2 railways to get a reduced rate, and he was told they
3 had to get their revenue out of this movement. That
4 man was thinking in the case of gross revenue, and
5 certainly not net revenue.

6 Q. How do you know? Let me suggest
7 to you, Mr. Stechishin, that he may have been thinking
8 of the effect of extending lower rates for higher
9 minimums into the movement of that and comparable
10 loading traffic throughout the country, the result
11 of which may well have been substantial net revenues?
12 Did that ever occur to you?

13 MR. STECHISHIN: Mr. Sinclair, it is
14 inconceivable to me that when you can lower the cost
15 on 100,000 pounds, or 60 tons, in the case of steel,
16 that if you extended that across the country at
17 a lower rate there would be a loss to the railways
18 over the entire system. The whole principle behind
19 rates is just that.

20 Q. Just do not be too anxious, now ---

21 MR. MAURO: He is not being anxious. He
22 will take care of himself.

23 MR. SINCLAIR: I wish you would let him.

24 MR. MAURO: I do not want you to impute
25 those motives to him.

26 MR. SINCLAIR: Just let him answer.

27 MR. MAURO: Do not feel he is anxious.
28 Just carry on.

29 MR. SINCLAIR Q: I put the question to
30 you, Mr. Stechishin, not only with regard to steel but



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2 with regard to other commodities having similar
3 transportation characteristics on which the railways
4 would have had to extend, normally, the same lower
5 rate basis, and that can be a consideration, can it
6 not?

7 MR. STECHISHIN: I know from my
8 experience that the railways for years have resisted
9 and resisted stubbornly, incentive rates, and now
10 they have decided to put them into the rate structure,
11 thus indicating there has been a change of heart,
12 and that shows they have not been looking at the
13 net revenue aspect of it.

14 Q. And that is the reason why you make
15 that statement?

16 MR. STECHISHIN: Yes -- no, not the only
17 reason. There are other reasons as well. That is
18 one illustration of it.

19 Q. What other reasons?

20 MR. STECHISHIN: The fact that the railway
21 representatives almost invariably look at the cars
22 as opposed to the rate at which the traffic is moving.
23 I have talked to a number of railway men in Winnipeg,
24 and in their solicitation they are thinking of the
25 number of cars they get from a shipper. It does
26 not matter whether it is a long haul movement or
27 a short haul movement.

28 Q. I want to go back there, Mr.
29 Stechishin. Is this suggestion of yours based on
30 talking to the solicitor on the street for traffic,



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2 or is it based on the rate making policy of the people
3 who make rates, or the railways? Just who did you
4 have in mind when you talked about "railway men"? Just
5 who did you have in mind? Did you have ----

6 MR. STECHISHIN: I had in mind one
7 particular individual, but I have also run across
8 others. When that statement was made I had in
9 mind one individual who was not a straight solicitor --
10 and in using that term I have in mind the better meaning
11 of it.

12 Q. Was he a rate maker of Canadian
13 Pacific?

14 MR. STECHISHIN: The particular individual
15 was not, but I can think of one who was.

16 Q. And did I name him earlier when I
17 put this question to you -- Mr. Jefferson, Mr.
18 Buckingham, Mr. Edsforth and Mr. Roberts?

19 MR. STECHISHIN: I do not think I would
20 care to answer that question.

21 Q. I would like to know. I have given
22 you four; is he one of the four?

23 MR. STECHISHIN: I do not even want to
24 narrow it down that much.

25 COMMISSIONER MANN: He is not on pension
26 yet.

27 MR. SINCLAIR: Of course, Mr. Commissioner
28 Mann, we in the railway industry are always just a
29 little suspicious of generalized statements when we
30 have called these various gentlemen -- all of them;



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our rate-making men -- to come before these tribunals
time without number, and we just do not like these
statements without their being backed up. So, you
will pardon me for pressing the witness. It is
possible that I might have gone a little too far.

Q. Now, Mr. Stechishin, your concern,
then, for the railway net revenue ---

THE CHAIRMAN: Are you starting a new
subject, Mr. Sinclair?

MR. SINCLAIR: Yes, sir.

THE CHAIRMAN: Then we will adjourn
until 10:00 o'clock tomorrow morning.

---Adjournment.



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